

## DOES YOUR BUSINESS MEASURE UP?

Good measurement systems are not difficult to establish and the start of the financial year is a good time to put in place or fine tune your existing systems to deliver reliable and useful information. Where it gets hard is when you are trying to play catch up, finding out where all the pieces are and trying to build them into your system when you need them. Your measurement systems need to provide you with both financial tracking and management information.

### ***Here are the key elements of a good system:***

- Operating budgets and cash flow forecasts to map out what you expect to happen over the coming year.
- Track your actual position and measure it against your expectations. To achieve this you need to have in place an accounting system that tracks your operating performance and tells you whether you are making profits or losses.
- Track your cash flow position. The maturity of your business and its growth cycle will determine how often you need to track information. For example, in a start up business or a business growing quickly, the general rule is to track cash daily and profits monthly.

Once your systems are in place to track the numbers the key then is to know what to look for. Don't fall into the trap of tracking the numbers in absolute terms. You should be tracking them against your expectations. As an example, it is not uncommon for a high growth business to make losses and have negative cash flow. These results are not necessarily bad news. If they are following the forecasts that you previously signed off on, then this is ok. What you are looking for is variance from the forecasts and trends against forecasts. You need to be concerned where there are significant adverse departures from your forecasts.

From a financial perspective these systems will provide a foundation level of information; but what about some effective business or management information?

Every business should be managed around some key performance indicators (KPIs). These provide fast and reliable guides on business performance. As an example, if you are a retailer you can reliably predict business performance around customer traffic and conversion rates. So, a KPI for you could be the number of people coming into the shop each day and the conversion rate on those customers.

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The strength of KPIs is that they are easy to access, reliable in their predictive results and can be produced in quick time. They give you instant access to what is happening in your business.

Most SME businesses can be tracked and managed effectively on six KPIs. More doesn't mean better. The key is to identify the areas of your business which are most likely to impact business performance. So a part of the question is what are the key fundamentals to your business? What are the key business drivers and what are your critical success factors? Work through these and the KPIs will quickly identify themselves.

Once you have your financial management system in place and your business performance measurement system in place you have access to both financial and non financial information that will not only tell you where your business is up to but where it is heading. This type of information separates businesses that are well managed from those that hope they will make it.

***If you need assistance with any of the issues raised in this article, talk to us today.***

The above is an extract from the publication "Your Knowledge" a newsletter service we have subscribed to as an additional resource.

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