

STRATEGIC FINANCIAL TASKS

Financial tasks do not end with the balance sheet. There are other financial actions that are critical to the future direction of your business.

1. Task: **Set targets for financial performance**

Regularity: At least annually

Possible Actions:

- Consider where you want your business to be in the next year and set targets in line with that.
- Work with your Accountant and/ or senior staff to help set targets relevant to your industry and your business.
- Incorporate targets into your strategic plan, key performance indicators and budgets.
- To help set targets for performance, look at how other businesses in your industry perform through industry benchmarks.
- Review financial targets against strategic plan and operational budgets at least quarterly.
- Alter targets where market or other circumstances dictate.
- Consider incorporating non-financial activities in targets, for example measures of throughput, number of sales calls etc.
- Use visual displays around the workplace to ensure all staff are aware of the key targets and progress against those targets.

2. Task: **Review and analyse financial statements**

Regularity: At least annually, preferably quarterly or monthly

Possible Actions:

- Compare key ratios from your financial statements, such as working capital ratio, stock turnover ratio or profit per employee to averages in your industry. You can get some basic industry benchmarks through www.ato.gov.au or your Accountant may be able to help you get access to more detailed industry averages.
- Compare performance against financial targets and past performance.

3. Task: **Review actual performance against budget**

Regularity: Monthly

Possible Actions:

- Ask yourself what caused any gap between budget and actual?
- Consider how best to overcome any problem.

4. Task: Undertake sensitivity analysis

Regularity: Annually

Possible Actions:

- Ask yourself, what if sales dropped 15 or 20 per cent? Or you lost a major customer? Or a major supplier stopped selling to you? What if your best sales staff resigned? Factor answers to such questions into your budget forecasts and risk management strategies.

5. Task: Set sales or production targets

Regularity: Ongoing

Possible Actions:

- Undertake a break-even analysis to determine what you need to sell before you make a profit.

6. Task: Prepare profit and loss budget

Regularity: Annually

Possible Actions:

- Make sure your budget reflects your strategic and financial targets.
- Incorporate key findings from your review of your last budget, sensitivity analysis and the break-even analysis.
- Ensure that budget estimates are realistic and have not been “massaged” to fit a desired result.

7. Task: Prepare cash flow forecast

Regularity: At least annually

Possible Actions:

- Have your cash flow forecast show the projected cash flows for each month in the 12 month period.
- Address any future cash shortages through increasing cash sales, collecting outstanding debts, reducing expenses or through external finance (such as an overdraft facility).
- If you decide to seek external finance for any purpose, go to your lender as soon as possible.

8. Task: Review and update cash flow forecast in light of actual results

Regularity: Monthly

Possible Actions:

- Update cash flow forecast to reflect actual events and monitor ongoing cash position.

9. Task: Review interest rates and conditions on your loans

Regularity: Annually

Possible Actions:

- Look at what other lenders are offering and consider whether you should switch lenders.
- If considering switching, consider the terms other lenders can offer, not just the interest rate.

10. Task: Provide financial statements and budgets to lenders

Regularity: Annually

11. Task: Comply with repayment schedules

Regularity: Ongoing

12. Task: Review debt covenants/terms and conditions

Regularity: Ongoing

Possible Actions:

- Notify your bank immediately if you are in breach of a covenant.
- If you are uncertain of your covenants, read your loan agreement or ask your bank.

CONCLUSION

Good business practices will help ensure your business is well run. A well-run business will help place your business in the best possible position to respond to whatever trading conditions you face, and help you move your business in the direction you want it to go.

Whatever the state of your business, look for services or products that are not “earning their keep” – low sales might be the indicator; frequent problems with product support might be another. Your financial system should be able to tell you whether there is little or no gross profit from a product, or the product might tie up too much working capital relative to its profit level. Once you know the source of the problem, see whether it can be corrected or whether you should consider no longer selling that product or service.

Structural changes are best made in the good times. However, if you need to make structural changes in less positive periods, communicate openly with the affected people; make sure you treat them with dignity and pay them any entitlements.

Whether your business is strong, weak or patchy, this checklist will help you make the most of any situation and feel more in control of your business.