

TRACKING BUSINESS PERFORMANCE:

INTRODUCTION

Do you really know how you are performing and where you are going with your business? This remains a fundamental question and many business owners do not have clarity in this regard.

This is not surprising as most entrepreneurs are focused on selling and growing their businesses. They do not have the time or interest in looking after the reporting and planning side of the business. The shoebox of receipts goes to the accountant at year-end, and that's the end of it.

The danger of this is that as you grow keeping track of business performance becomes crucial. One element of this is cash flow. As a business grows, cash flow becomes "king", and if it is not well-managed this can often lead to insolvency. Another element is leverage, getting the finances to grow, and banks will only lend money to businesses which have accurate and up-to-date financials.

You may think that you can leave your performance tracking to your accountant. However, entrepreneurs in small and medium enterprises (SMEs) must manage this crucial aspect of business themselves in order to keep their finger on the pulse of their operation. It is a simple matter of asking the right questions and finding the answers on a regular basis.

WHAT SHOULD I TRACK?

BALANCED SCORECARD – The balance comes from tracking not only Financial performance measures, but Non-Financial ones as well. The main ones to be aware of are listed here.

1. **FINANCIAL** – Most important financial indicators for SMEs include:

- 1) Revenues – are they rising as expected? What about profitability?
- 2) Expenses – keeping the lid on rising expenses is difficult in general, but during a growth phase, expenses must rise in order to fund the

growth. This is called “front end load” – where you must spend money in advance of getting the sales.

- 3) Liquidity Ratio (Current Assets/Current Liabilities). This is very important for bank margining – that is, meeting the bank’s requirements and fulfilling your covenants on your operating line of credit.
- 4) Aged Receivables and Aged Payables – what is coming in, and going out, and when.
- 5) Bank Balance – a monthly reconciliation is necessary to be sure your book balance is correct. When cash flow is especially tight, more frequent reconciliations should be done.
- 6) Actual vs. Projected Cash Flow – examining the past patterns of your business cash enables you to more accurately project the future.

2. **NON-FINANCIAL** – many performance indicators have no direct link to the balance sheet or income statement, but obviously will eventually lead to greater profits over time.

- 1) Number of calls made resulting in leads – i.e. “Hit rate”. This number should remain relatively stable over time.
- 2) Client retention – as you attempt to improve your business processes, retention should rise. A decline in retention can signal a serious flaw in your business activities which would otherwise not be noticed until it’s too late. Keeping an eye on this element is crucial.
- 3) Customer Satisfaction – linked to customer retention. A regular, simple survey of your customers is sufficient. Offer incentives for prompt response, and make it easy for them to respond. Or, instill a practice of regular calls to your clients to be sure their needs are being met.

All of the above measurement tools will help you identify issues which need to be addressed. There are many other ratios and indicators which could be tracked, but it is important for you to choose the ones that are most relevant to your business model. The biggest danger is that you do not attach meaning or value to what you are measuring. Do not get caught up in “measurement mania”, where you measure everything but do not think about what the numbers signify.

SOME COMMON QUESTIONS

I do not have the time and money to measure what I am doing

If you are serious about growing your business you do not have the luxury of not tracking your performance. Further, you are required as a business owner to keep track of performance for taxation and legal purposes: e.g. GST, PST, source deductions, T1, T2 etc.

Once the tracking process is in place it will not take a large amount of time. Further, it is important to leverage your time and look into getting outside help on a part-time or full-time basis, depending on the scope of your business.

With the many off-the-shelf reporting packages now available, the cost to SMEs has reduced dramatically. Learning these packages has become easier to the point where almost anyone can input the data and achieve meaningful results.

How do I track my performance ?

The biggest challenge I have found for small business is having the daily discipline of recording your activities. Like exercise or any other new resolution, once you have established a routine it becomes a simple task to do it daily. The benefit of this approach is that you will be able to determine your performance at any time, which is required of most businesses today.

Off-the-shelf software packages such as Simply Accounting or QuickBooks are inexpensive, easy to navigate and will provide you with daily Profit & Loss statements and Balance Sheets if required. Microsoft Excel can be used to track performance as well, and is a great tool for budgeting and projections.

As a starting point, look into getting external assistance in setting up your reporting tools and regular assistance if required.

CONCLUSION

It remains crucial to the success of any organization to be able to say at any point where you are now, and where you are going in the future. Too often I see post-mortems of poor performance at year end which could have been prevented if the company had tracked its performance adequately. Plan, but do not get caught up in planning paralysis. Plan and measure with an objective in mind.

Then, once you have identified a problem area, take immediate corrective action. If required, get external assistance in setting up your tracking processes and correcting problems. Leverage other professionals' time so that you can focus on growing your business which after all is the most important thing.

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