




YOUR CFO FOR RENT Gene Siciliano

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CELEBRATING OUR  YEAR

A Management Update from Your CFO for Rent



Insulate Your Business From The Recession

• Protect and Prepare

The Bureau of Economic Analysis has finally said “the R word.” But if you’re like most business owners today, you’ve already felt it more surely than any of those folks looking at numbers from 50,000 feet. You know your business is affected, or soon will be, by the slowdown in spending and profits in nearly every sector of the economy.

So what do you do? How can you minimize the impact on your business?

I firmly believe that good information and strong leadership based on that information will enable you to make the best financial decisions over the next year or two, the amount of time it will likely take for the economy to come back strong enough to restore confidence in the minds of our customers. In the meantime, you can just hunker down or you can protect and prepare. Say what?

Protect. You need to make sure to keep your powder dry and not lose critical strength during the next year, when we’ll see businesses all around us falling apart. Some of them will

never get up again. Others will take years to get back to where they were only last year. It’s important that you not become a casualty of this economy.

Prepare. At the same time, you need to prepare for the recovery and try to take advantage of your ability to withstand the dual assaults of slow paying customers and aggressive collection by suppliers and creditors. You will want to look for opportunities to get a head start on the recovery and to gain potentially significant advantages over competitors in your market. Your degree of success will be based on insightful analysis and prudent investment.

The keys to those twin strategies are solid financial information and smart decisions based on that information. Here are my nominations for the 4 pieces of financial information you must have at your fingertips every month from now on, followed by 2 tips for allocating scarce resources during the next critical 12 months. And before you say “I knew that” ask yourself if you in fact have it in your office today. Here they are:

1. *Your minimum cost of doing business – your fixed monthly operating expense.* What is your LODO (Lights On, Doors Open as one client called it)? This includes all your permanent staff, whether in production or administration. This is the amount of cash that you must have available to open the doors if, for example, you didn’t collect any

THE KEYS ARE solid financial information and smart decisions

receivables or make any sales this month. *Action:* Plan to have at least 3 months of this amount available as approved credit lines or (less desirably) cash in the bank.

2. *Contribution Profit on each major item you sell or service you provide.* After considering all the variable costs you incur and the prices you charge, how much money does each sale really bring you – not across the company but individually for every significant offering? If you’re really on top of your game you also know this number

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Multi-vitamins for your business • Strategy No. 2

Last issue I wrote about handling problematic strategic suggestions from your management team without discouraging their involvement. We covered the tendency of many sales managers to opt for lower prices to help them sell more products and services. This month we'll look at the suggestion from an eager but unseasoned plant manager who thinks the key to improved productivity is to acquire the latest technology in manufacturing equipment, even if it means borrowing money to buy the equipment.

A good plant manager will want to produce the best product possible, with the highest productivity and the latest equipment. They will not typically grasp the amount of profit improvement or time it will take to pay for that expensive new equipment, and in honesty that's not an analysis that you would expect to roll off the tongue of your plant manager. But if you can't get that analysis done by your finance staff you shouldn't buy the equipment and your banker is unlikely to lend you the money in any event, because they want to know that answer too.

A better idea: Effectively managing a capital acquisition program for your business requires an understanding of Return on Investment ("ROI") and its more advanced cousin Discounted Cash Flow ("DCF"). These tools will tell you whether or not that new



equipment will pay for itself in 3 years, or 5 years, or 20 years (by which time you may not care). A comparison of what you'll pay out with what you'll save in productivity gains, adjusted for the time value of money, is the magic that should guide such decisions. If you know it, your banker will be impressed and likely glad to lend the money. Guiding your plant manager through this thought process will help him grow and send the message that you value his input and want to give him insights to improve that input in the future. If you want your finance department to learn how to do the math, or you want it done by experts, call us – 888-788-6534.

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for each major customer, so you can identify those who buy mostly low margin products vs. those who buy the best you have to offer. During times of rising costs a huge fixed price contract from Wal-Mart can be more of a curse than a blessing. Remember, Contribution Profit must cover the LODO and a profit besides. *Action:* Raise the bar. Stop producing anything and stop selling to any customer that provides no Contribution Profit.

3. Projected cash flow, by month or even by week if things are tight, for the next 3 to 6 months. Longer if you run a seasonal business with annual cycles. This is the information you use during the good times to establish appropriate credit lines for use during the lean times. *Action:* Any dangerously low cash balances projected during the forecast period must be covered by available credit lines.

4. P&L and cash flow Trends reviewed monthly in side by side format so you can easily review line by line changes over time and identify developing trends that are either positive or negative. Example: A ½% decline in gross margin from July to August may get overlooked on a standard P&L Statement, but a ½% decline in 6 of the past 8 months may be a looming crisis and you need to know about it as soon as possible. Trend reporting gives you that insight. *Action:* Don't

wait. Take immediate steps to stop or reverse any negative trends running longer than a couple months.

Now for the tips for allocating scarce resources. What scarce resources are we talking about? CASH! Duh! Cash in the bank is never more important to your business than times like these. Here is what I want you to do:

1. Projects in process – what initiatives are underway that you could postpone for 6 to 12 months without hurting your business today, and thus conserve cash that you might be glad to have in the bank? What programs did you launch when times were good that have not produced as you had hoped, and you've been feeding them hoping that they will start producing results "soon?" These should be cut back, postponed or cancelled. Dry powder is the name of the game, and the color of the powder is green.

2. Investment opportunities – Where can you make an investment now that will position you for market share expansion when things turn around, as they always do? This is a very strategic time to take advantage of opportunities that your competitors are afraid to consider, perhaps a focused ad campaign for a new product that directly addresses the pain your customers are feeling. The right bold moves can pay big dividends during a recovery.

Remember, non-financial managers can no longer afford to be non-financial. And with our help and Finance for Non-Financial Managers (Gene Siciliano, McGraw-Hill, 2003) on your desk, you don't have to be. Pick up a copy at Amazon.com or call us to get yours. Even better, call 888-788-6534 to get Gene's help in crafting your Protect and Prepare strategy.



Your CFO for Rent

We are committed to helping business owners and corporate managers achieve for their companies greater financial success in an ever-changing economy.

Financial management consulting, executive coaching, management audits, business planning, seminars, & workshops for management teams