



Small Business Travails

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According to a recent unscientific and informal survey of small and medium sized businesses, the following are the top five problems they were looking to solve, with the percentage of businesses suffering from each malady:

- 1) Lack of proper information (77%)
- 2) Deficient internal processes (68%)
- 3) Insufficient cash flow (50%)
- 4) Margins below benchmark (27%)
- 5) Desire to expand/grow without the proper resources (23%)

Let's take a look at the details of each of these five.

Lack of Proper Information

It's common to have a lot of data but still not have the right information to run your business. This can be as basic as periodic financial statements or as sophisticated as daily or weekly key performance indicators. What drives your business, and are you properly measuring it? Do you have the right tools in place to potentially measure it? If you cannot give a definite 'YES' to both of these questions, then this might be your top item too.

Deficient Internal Processes

This does not necessarily mean internal controls, although if fraud is a possibility within your business then maybe it does. But more general, having the right processes in place to run your business is essential to eliminating waste. Simply speaking, this could be as easy as properly receiving and then recording subsequently sold inventory. Without proper procedures to capture the right data, chances are good you are either not able to sell something you think you have on hand or slow in billing the item after you sell it.

Have you paid for the same thing twice? Hey, don't laugh, it happens way too often.

Chances are also good that your people are stressed out and complaining about being overworked; they need help. Fixing the process can eliminate the need to hire and lower the stress level of your employees.

Cash Flow Insufficient

This is not profit but cash flow, and there's a huge difference. Here's a question - is your cash flow sufficient to fund your growth plans? Acquiring inventory to subsequently sell requires cash, and possibly even a short-term bank line of credit. For example, small businesses selling products to larger companies are going to get hit at both ends – lack of lengthy payment terms from suppliers and ever-increasing payment terms from customers, sometimes ranging 90-120 days. As a result, if you have to pay for your inventory within 30 days, and if you turn your inventory 4x per year (thus holding it for 90 days), you are potentially facing a working capital cycle of 150 days. How do you fund this? Better yet, how do you keep on hand the items you can sell while still being able to acquire the latest and greatest models to sell? Both require cash.

Margins Below Benchmark

Companies may want to look at Turn and Earn ratios – looking at the average inventory turn while combining that with the margin on each item. Are you keeping in stock items that turn 2x per year at low margins? Why? Sometimes reducing the number of items sold can drastically increase the bottom line on cash flow. For more on margins, see a separate article “Gross Margin Improvement” [\[link\]](#).

Desire to Expand/Grow Without the Proper Resources

Do you have a growth strategy? Does it involve new product lines, expanded sales efforts or territories, or even acquiring another business or two? Do you have the proper resources to address these areas? What is your plan to achieve the next cycle in your business evolution? Without a strategic plan that prepares for expansion, you're doomed to fail.

Nobody can do it alone. There are solutions to each and every problem above. Surrounding yourself with great business and financial advisors can help you identify when problems arise and guide you to resolution.