

How 2016 can be your most profitable year ever.

As we await the new year, this last week of the year presents a great opportunity for all us to look into our businesses and develop expectations for the new year. Most folks look at sales or revenues as the most important component of increased profitability. Even though I agree with that thought process, I would challenge all of you to look at your entire business, including your margins and your business expenses. Here are three different exercises that will make you more knowledgeable about your business today and help you increase your profits in 2016:

EXPENSE ANALYSIS: Look at your expenses for the last three years. Are they flat? Are they going up in relationship to sales? Many business owners get in the habit of just paying their bills and not really looking at the "big picture" of what all those bills really add up to. Take thirty minutes and identify those expenses that have increased at a much higher rate than sales and investigate the reason for such increases. These investigations have in some cases uncovered fraud schemes. Next, identify who your largest vendors are. For these vendors, your purchases are probably an important part of their businesses which could allow you to negotiate better terms and better prices. Finally, on an annual basis, select two or three vendors and quote their services with other suppliers. The truth is that price is not everything and the service that you are receiving from your current vendor may be superior to what you'll get from these new vendors, but the important thing is to know what the market value is for the services you are receiving or goods that you are buying for you to be able to make the determination if a premium is warranted. Remember knowledge is power!

BENCHMARKING: Benchmarking is the practice of comparing your business results to other companies in your industry. This is a great tool to compare your business' metrics (i.e. margins, AR turnover, etc) against data in your industry. This data is sometimes available online or can be obtain from industry peer groups. Accountants can also provide these data points. Without measuring your results, it is very hard to understand how well or how bad your business is doing. Identify those metrics where your business is doing poorly. Pick one or two at a time so you can really focus on these. As those metrics become above average, pick one or two more and go through the same process. Challenge yourself and your business to be a top performer in every metric of your peer group.

REVIEW PROCESSES: This is probably the least favorite thing to do for business owners. You have had a process in place since you started your business and you really don't want to change anything. Change is difficult, change is "expensive". But what if I told you that not reviewing these processes could be more expensive. Reviewing processes does not mean changing processes. It just means making sure that the processes your business currently has are the right ones for a business your size. Maybe you were selling \$500,000 a year when you started and now you are doing \$500,000 per month. Maybe you had two employees when you started but now you have twenty, which should help you in segregating duties among your employees to avoid fraud. These reviews always reveal information that the business owners were not 100% aware of. In order to not overwhelm yourself, select one process or cycle and review it. Start with the most important cycles: the Sales/AR and the COGS/Inventory. Have someone from your team document the process from the moment a PO is received from the customer to the

moment the invoice is collected in the case of the Sales/AR cycle. Take 15 minutes and walk this cycle through by following the next customer PO received through the entire process. Try doing this on an annual basis or every time your business has a significant change, including key employees leaving the company.

I know year end is a busy time of the year, but take this week and the next one and try working on at least one of the exercises mentioned above. You'll gather information that will put you well on your way to your most profitable year!

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