

How is Your Company Doing Compared to Plan?



The first half of the year is over and we have hit the traditional summer slowdown, where it seems like so many of us are on vacation. This is a perfect time to reflect on the first six months of the year, in order to see what is working and what needs more attention. At the beginning of the year, a well run company prepares a comprehensive corporate financial plan. This plan considers all of the functional needs of a company based on its projected revenue and profit. A solid corporate financial plan will also identify the key financial and non-financial measurements that will be tracked throughout the year, to ensure that the company is on course to meet its goals.

Have you been monitoring your performance against plan? Many companies prepare great plans, just to place them in a desk drawer, not to be reviewed again until year-end. A periodic review of actual results, as compared to your plan, allows management to shift corporate priorities, adjust to market changes, and cancel or alter initiatives that are not pro-

ducing the expected results.

The first questions to answer during this mid-year review are:

- Is the company on target to meet its revenue goals?
- Is the company maintaining projected gross margins?
- Is the company maintaining projected net profit?
- Are there any unexpected changes in working capital needs?

Once you have answers to these questions, there is one final question that needs to be addressed: The question is WHY?

- WHY are revenues lower than expected?
- WHY are gross margins higher than expected?
- WHY are profits decreasing?
- WHY is our cash balance lower than expected?

A company with a properly formulated and monitored plan will be able to determine WHY they are exceeding or

behind plan with much more precision than a company without such a plan. The well-formulated financial plan will have identified all of the financial and non-financial metrics related to each function. These metrics will have been tracked against expectations periodically (i.e., monthly or quarterly) and will give management a clearer view of what is working versus what is not working.

Let's drill down on the first question, to get a better idea on how planning can help a company. For example, a company might fall behind on its revenue projections for a variety of reasons. If management can pinpoint WHY a company is lagging behind expectations, they will have an easier time in formulating and executing an appropriate response. Examples of WHY a company could be falling behind revenue projections include:

- A reduction in sales from new customers;
- A reduction in sales from existing customers;
- An inability of human resources and recruiting to keep up with hiring needs;
- An inability of suppliers to deliver required materials or services;
- An inability of operations to produce products or services at the required levels.

Each of the above issues requires a different response by management. Examples of how a company might address each of the above issues are:

- Expand marketing and lead generation efforts;
- Improve the quality of products or services OR expand product or service offerings;
- Benchmark and update employee compensation and benefits and review and update recruiting practices;
- Expand vendor list or look for substitutes in the market;



- Make investments in infrastructure to improve productivity and capacity.

Each of the tactics listed above requires the use of corporate resources to execute. Knowing which tactic to choose to get the best results is the result of having quality financial information on hand. Having solid financial information will also help a company reduce the costs associated with making a bad decision and will make it easier for the company to know if the chosen tactic is adequately addressing the identified issue.

The ability for a company to hit its financial targets will also greatly enhance a company's credibility with all of its stakeholders, including its shareholders, employees, bankers, vendors, and clients.

- Shareholders and future investors will be more confident in management's ability to generate a fair return on their investment.
- Employees will be more confident in their ability to grow professionally and sustain compensation growth (i.e. salaries, bonuses, and stock option value).
- Bankers will feel more secure in extending credit lines.
- Vendors will be more assured that they will be paid promptly.
- Clients will know that you can deliver quality products and services as you grow.

To enhance a company's ability to achieve their projected financial performance, companies should have a clear picture of their recent financial results. A quality accounting department will provide a business with monthly accrual-based financial reports that include financial and non-financial metrics. This information will assist management in ensuring that the company can hit its projected future financial results, and ensure that the company remains on the path to success.

Source: Ted Rose is the President of Rose Financial Services, based in Rockville, MD. If you have any comments or questions, he can be reached at info@rosefinancial.com or 301.527.1130.

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