

Why *invest* time



Almost any family business that has sought finance from its bankers will have been asked to produce both cashflow and profit budgets, sometimes for more than just the next 12 months. For a significant number of businesses this is the only time that they feel it necessary to prepare such documents.

Does this mean that budgets are really not an essential part of good business planning? Is it just a ploy on the part of the banks to make life more difficult for already overworked family business owners?

The answer to both questions is a most emphatic NO.

Budgets are an important part of overall strategic planning for any business. Both are the basic ingredients of the recipe for business success.

A hastily prepared cashflow budget for your bankers, done under duress and with little associated strategic planning provides no longterm benefit. Yes, it may mean that your bankers are convinced to lend you the required funds, or to renew existing facilities, but if it is not part of a regularly updated strategic planning program, then its value is brief.

In today's very competitive market for banking funds, not only is there stiff competition for the funds themselves, but there is also pressure on margins and banks will endeavour to use any reason to increase the margins that they charge on funds advanced to you. In short this means

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that banks are looking to improve their profits by increasing their interest rates.

There are several factors that influence the setting of interest rates by banks:

- The security offered;
- The displayed ability to meet the repayment and interest commitments on the loan; and
- The bank's evaluation of the business management skills of the borrower.

Obviously the cashflow budgets are absolutely necessary to convince the bank that you can repay your borrowings in a timely manner. However you, the borrower, may be able to significantly

goes without saying that the sales and marketing departments have crucial roles to play as sales are the lifeblood of the business. Sales targets should be set at levels that encourage sales people to strive for improvement, but not so high as to be unattainable as that may well have a discouraging effect on those doing the selling when they can never make budget.

An easy way to attain high sales volumes is to reduce prices. However, there is no benefit to a business that sells product in high volumes but at margins that are insufficient to cover overheads. In fact the reverse may well be true.

meet sales targets and the levels of debtors that will result from achievement of these sales. There is no point in achieving record sales if the time taken to collect the debt and the amount that must be invested into inventory places too great a burden on the cash reserves of the business.

And the final ingredient in the success recipe is the preparation and analysis of regular financial reports, quarterly as a minimum, but ideally monthly. These financial reports must be compared to both profit and cash budgets and any significant variations investigated. It may become necessary to alter strategies. An early detection of a problem, and a prompt reaction to it, means that the impact is substantially reduced. In extreme circumstances it could well be the factor that prevents the failure of a business.

What are we to conclude from all of this? Undoubtedly that regular short-term and long-term strategic planning and review of results will ensure that a business is able to take the necessary timely actions to source sufficient financial resources to achieve its profit goals. The business will be well on the way to being the success that will ensure that it is able to continue into second and subsequent generations. ●

Des Caufield is a director of MGI Australia, Accountants and Business Growth Advisers. www.mgiaust.com.au

BUDGETS ARE AN IMPORTANT PART OF STRATEGIC PLANNING FOR ANY BUSINESS. BOTH ARE THE BASIC INGREDIENTS OF THE RECIPE FOR BUSINESS SUCCESS.

reduce your interest costs, and thus make it easier to meet commitments under the loan, if you can show the banker that you are an exceptional business manager.

This is where a properly considered and regularly updated strategic plan accompanied by well researched cash and profit budgets can go a long way towards convincing your banker that you have the management of your business well under control.

And who should control the strategic planning and budget process? There is no one person or group within the business that will have the greatest influence. It

Business owners should consider setting sales targets that are not volume determined, but rather are for gross profits to be achieved. This can have the beneficial effect of the sales people endeavouring always to extract the maximum margin on each sale, rather than just focusing on the volume sold.

The finance people must work hand-in-glove with the sales department to ensure that pricing of product provides sufficient margins to maintain business profitability. Calculations also have to be made of the levels of inventory that are required to