Is Your Business Profitable?

You probably started your business for many reasons besides a love for small business accounting. Maybe it was to turn your passion project into your full-time job, or perhaps you just wanted to become your own boss.

I have the unique opportunity to talk to all small business CEOs that have asked for some mentoring help from our SCORE chapter. After I find out their current needs and specific situation, I then find a mentor for them. This week I interviewed 10 such cases. In most of these requests, the CEO expressed the need for help in either improving the bottom line for the business or help with how to grow the business to help make it more profitable. So, in this column I will share some thoughts that I discussed with them.

1. **Know how to constantly watch how your business is doing:** While you don’t need to become a full-fledged accountant to make your business successful, there are a handful of financial metrics you should have a handle on. The most successful small business owners have a strong understanding of these metrics and use them regularly to measure the financial health of their business.
   a. **Income:** A small business without income just simply won’t last long. Pay attention to your daily income, as well as monitoring and tracking it weekly, monthly, quarterly and annually.
   b. **Expenses:** Are you on top of how much it costs to do business every month? In addition to the cost of goods sold, you can’t ignore the overhead costs associated with doing business, including: your lease, utilities payments, paper goods, and even things like paper towels in the bathroom. Next to income, you really need to have control of your business expenses.
   c. **Cash Flow:** The balance in your business banking account at the end of the month may not be the best measure of your cash flow. Consider using the cash flow ratio metric, where you divide your income by your liabilities. While you should aim for 2:1, if your ratio falls below
1:1, it’s a warning sign that you don’t have enough cash flow to support your business operations.

d. **Accounts Payable**: Staying on top of your Accounts Payable Aging is important for a number of reasons, including how it impacts your business credit profile. It can also be an opportunity to reap additional profits by taking advantage of the favorable payment terms many suppliers offer their customers who pay their invoices quickly. For example, many suppliers offer discounts if you pay your invoice in 10 days as opposed to 30 days. Also, consider this. Ask your suppliers if they offer credit terms – many will offer 30, 60, or 90 day credit terms to their best customers. If you pay on time and they report the payments, this will help build your business credit profile.

e. **Accounts Receivable**: If you offer your customers payment terms, it’s really important to stay on top of how long they take to pay an invoice. If you offer 30-day terms to your customers, every day a customer takes over 30 days to make payment has the potential to negatively impact cash flow. After a certain amount of time, it may even start to cost you to do business with that customer.

2. **Engage your customers/clients**: Marketers agree, year after year, that email is the most effective way to reach customers. If you want to boost engagement, the key is making the emails valuable. A 2016 Fluent LLC. study found that 15 percent of consumers find marketing emails “often” or “always” useful, while more than half, 57 percent, said they’re “rarely” or “never” useful. To avoid fatiguing your subscribers and ensure that all of your emails provide value, spice up your email marketing plan.

3. **Poor Customer Service**: An unhappy customer is a big problem, especially as a small company trying to build a reputation and customer base. For every customer who complains, there are six more that don’t say anything to you—what’s worse, 82 percent of consumers who had a bad customer service experience left the company (both according to GrooveHQ).

4. **Incorrect Product/service Pricing**: Whether you price too high or too low, you risk losing money. Price your product too low, and you devalue your product or service. That’s not all: “If you set your prices too low, more customers will buy your products. Sure, a lot of people buying products is a good thing. But, the prices might be so low that you barely turn a profit. People might be willing to pay more than your ultra-low price,” says Mike Kappel, CEO and founder of Patriot Software.
Price it too high, on the other hand, and you’ll lose customers who want to pay less for the product or service and can with a competitor. In either case, you lose—which is why it’s time to revisit your pricing. Use the equations and guidance from Strategic CFO to determine markup, operating profit margin ratio analysis and more.

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