Five Things Every Small Business Owner Should Know About Their Business

A million details to keep track of. A thousand documents to read. What’s most important if you want your business to succeed? Here is the list that gets my vote for the 5 most important operational questions. Notice that we don’t ask the questions because we don’t know the answers, because none of these are “one answer fits all” questions. The right answer is the one that you look at and say to yourself: “Great answer!” So, here’s my list:

1. How much profit do you really make on each of your 10 largest customers?

Why? Because the profit you make on those big customers (top 10 or top 10%, depending on your business) determines in large measure the profitability of your business. Consider how much money they order, and how much they pay. Those are the obvious things. But now consider also the special price concessions you might give them in appreciation for their business. Do you extend special accounts to them in delivery, warranty support, or other customer services? Do you extend payment terms or wait longer before you call Accounts Payable, all the while borrowing from your credit line? Do you process special turnaround orders or accept smaller orders than you really want to?

2. How much does each product you sell really cost you?

Why? Because if you lose money on every product you sell, it’s really hard to make it up on volume. I am amazed at how many CEOs don’t know the cost of making or delivering a product by deducting the selling price only the direct costs of manufacturing or purchase. Often this is calculated as an average for an entire department, or even entire factories. Unfortunately, this is virtually never the true cost of a product you sell. Consider the costs to receive, package, warehouse, and deliver the product. How about servicing the warranty on its performance? The development cost if it’s your proprietary product? The commissions paid to sales agents? The after-sale service and support? How about servicing the warranty on its performance? The development cost if it’s your proprietary product? The commissions paid to sales agents? The after-sale service and support? Does your inventory revolve, or turn over, during a year? How quickly do your inventory rotate, or turn over, during a year? How quickly do your inventory rotate, or turn over, during a year?

3. How much is your inventory really worth?

Why? This sounds like a no-brainer to most folks including, I’m sure, nearly all my readers. So, ask yourself this: What is the average days’ sales in your current accounts receivable balance (often called “DSO”)? Need to look it up or ask Accounting? Hmmmm. Too often we see the concept but don’t follow the practice. Collections get out of hand without our realizing it, because we’re busy selling more and “managing the growth.”

4. How quickly do your receivables get collected?

Why? Because the longer your receivables are outstanding, the more expensive they become. How much profit do you lose on a late payment? How quickly do your receivables get collected? How much profit do you lose on a late payment? How quickly do your receivables get collected? How much profit do you lose on a late payment?

5. If your business does what you expect it to, when will your cash reach its peak point of the year? The lowest point? And how much cash will that be?

Why? Everyone seems to agree they’d like to know those answers, in order to plan for short-term borrowing needs, or to explore investment opportunities in advance. And yet few small business people believe they can get the answer in any way that’s reasonably reliable or cost-effective. Many CEOs track their idea of cash flow by following net income and the bank balance, n

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