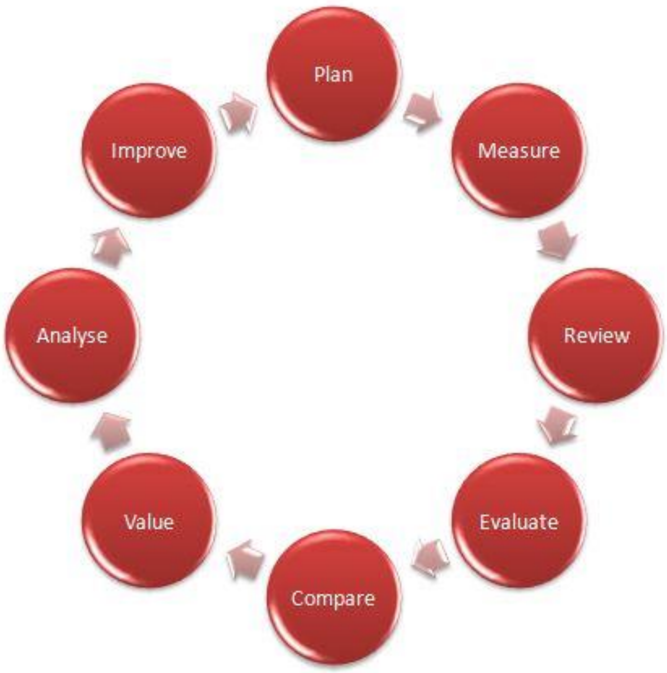

Our workbook to help you make your numbers work for your future success

Chapman Robinson & Moore

MAKING YOUR NUMBERS WORK

Thank you for selecting our workbook as a tool to help you make the numbers in your business work for your future success.

Here at Chapman Robinson & Moore, we are committed to helping you start, develop and eventually exit your business, whilst supporting you with our expertise and knowledge to run a more profitable and enjoyable business.

This workbook has been created using extracts from our Business Improvement Programme, based on the 8 steps undertaken by the UK's most successful businesses every year, without fail. This workbook is not a substitute for being part of our Business Improvement Programme, but we hope it is a useful guide for you.

We have provided some starter templates to help you consider how you can implement these 8 steps into your business and help you achieve your own goals and objectives.

If we could help you further with the implementation, accountability, training or support, then please do not hesitate to contact me or one of my team.

Tony Hobbs

Managing Director, Chapman Robinson & Moore Accountants

Trust, Honesty & Respect

Supporting you with our core values

Our business is supporting your business and making the numbers work

As one of Oxfordshire's leading providers of accountancy and proactive business mentoring services, here at CRM Accountants in Oxford we combine our Compliance support (your accounts and tax returns) with our Business Development Service to help you:

- Remain compliant to the legal requirements
- Keep more of what you earn for you and your family
- Make the numbers in your business work for your success (resulting in more turnover, profits & cash)
- Help you measure and improve everything that really matters to you, your family and your business
- Gain more control of your business, work / life balance and wealth, with the support of our expertise and technical knowledge.

We strive to help you obtain what you want to have, want to be and want to achieve.

We help you create the business you desire, build your wealth, take calculated risks, improve your earnings, give you back more time, manage your costs and give you control.

For business owners, we know you want much more than a great set of books and an on time tax return. That's a given, but we help create a healthier business with a range of services that we believe will make a difference to your success and turn your vision into reality.

www.crmoxford.co.uk/Why-CRM

Plan

Vision & planning – start with the end in mind

- Do you know what you really want to achieve for both the business and yourself?
- Is your vision aligned with other stakeholders in the business?
- What activities do you need to proactively undertake to achieve that vision?

What is your long term vision? What do you really want to achieve before you exit the business?

Where do you want to be in 5 years time?

Where do you want to be in one years time?

What activity do you need to undertake in the next 90 days to kickstart your proactivity?

On the next page, we have provided a template for your One Page Business Plan.
The template encourages you to work backwards. What do you really want? What targets do you have to achieve to deliver that vision? What activity do you have to undertake, without fail or distraction, to achieve those targets?

Once you have established your activity plan, then you can build these actions into your goal planning. For more information about our effective goal planning guide, then please see our articles and videos on this topic. You will see we have an effective goal planning process that does not just focus on the actions to deliver within a certain timeframe, but also considers your motivation and potential obstacles to avoid.

The following template, on page 5, will then help you to complete your profit and loss forecast. Ensure you include: What is the cost or investment related to your planned activities? What numbers do you have to deliver? What drives each individual number on the forecast, rather than simply being an estimate? *Please note the forecast template is simply for profit and loss. We would recommend considering the 3 way impact to your cashflow and balance sheet.*

Our vision and objective is....

What do we need to achieve? What are our targets?

	Target 1 year	Target 2 years	Target 3 years	Target 4 years	Target 5 years
Sales					
Cost of sales					
Gross profit					
Employee costs:					
Wages and salaries					
Directors' salaries					
Pensions					
Bonuses					
Employer's NI					
Staff training and welfare					
Travel and subsistence					
Motor expenses					
Entertaining					
Premises costs:					
Rent					
Rates					
Light and heat					
Cleaning					
General admin:					
Telephone and fax					
Postage, stationery and printing					
Subscriptions					
Bank charges & interest					
Insurance					
Equipment					
Software					
Repairs and maintenance					
Depreciation					
Bad debts					
Sundry / Other					
Legal and professional costs:					
Audit fees					
Accountancy fees					
Solicitors fees					
Consultancy fees					
Management fees					
Advertising and PR					
Other legal and professional					
Operating profit					

Measure

Measure how well you actually perform each month

Are you regularly producing an effective summary of your financial performance with your management accounts information and reports. A summary that actually helps you to run your business and make key decisions?

We encourage our clients to use a management report structure that as a minimum produces the actual vs forecast comparison, a summary of the targets you are tracking and an overview of your key performance indicators.

What are your Key Performance Indicators? What will you measure to check that you are on route to your desired success? Are you producing your management information in a timely manner?

We also encourage you to have a visual on your variances when comparing your actuals to the original forecast. You could use a manual structure such as an adaptation of the forecast template on page 5, whereas we tend to use reporting tools to display such information.

When comparing your financial performance, we also encourage you to use financial ratios to obtain a like for like comparison, rather than the resulting number. Here are a few key ratios we consider. How do you perform?

Gross margin (%)

Calculated as:

$$\frac{\text{Sales – Direct Costs}}{\text{Sales}} \quad \text{X 100\%}$$

Net profit margin (%)

Calculated as:

$$\frac{\text{Net Profit before interest \& tax}}{\text{Sales}} \quad \text{X 100\%}$$

Debtor days
Calculated as:

$$\frac{\text{Debtors}}{\text{Gross Sales}} \quad \text{X 365}$$

Return on investment (%)
Calculated as:

$$\frac{\text{Net Profit before interest \& tax}}{\text{Total Assets Employed}} \quad \text{X 100\%}$$

Review

Measure your full year's performance

If you are measuring your business performance on a monthly or quarterly basis, then there should be no surprises when you produce your year end business accounts and tax summary.

Does the way your accounts layout and the notes explain your accounts in a plain language, that ensures you are able to interpret the numbers in your accounts and understand how they impact your business?

In line with the accounts we produce, we recommend that you choose a format that enables you to easily assess whether you are on track to achieve your long term vision and objectives, whilst ensuring you are proactively managing the business to make the profit you desire.

Your annual accounts summary is in fact part of the 8 step process that keeps you compliant with the requirements of HMRC and provides the desired information for your tax returns.

However, we encourage you to look beyond the numbers to establish what they really mean and understand the drivers behind your success. For example, turnover and profit are only an outcome of managing other numbers that contribute to these resulting figures.

We use simple formulas to help our clients consider the numbers in their business and the cumulative impact on turnover and profits.

The number of leads you generate (marketing)
x
Your conversation rate (sales)
x
Number of customer purchases at first contact (cross sales)
x
The value of sales (your prices)
x
Your margin (cost management)
x
Future cross sales in the year (sales & service to buy more often)
x
Increasing the customer lifetime (retention)

Using such formulas, also enable you to apply the ‘marginal gains philosophy’ of how you can improve at each level, even a little, and increase the cumulative value.

To help you consider the drivers of your success, here are some questions you may consider:

Are you pricing for maximum profit?

How are you getting more customers?

Are you converting all your marketing leads into sales?

How do you encourage your customers to stay longer?

What activity do you undertake to get your customers to spend more with you?

How do you encourage your customers to buy from you more often?

Evaluate your performance against previous years

At this stage, you will have your management accounts for each month or quarter, together with your performance reports. You have produced your annual accounts and tax returns.

With all this valuable financial information, which includes the detail behind the resulting numbers displayed in your accounts, we encourage you to evaluate your performance against your previous years.

Look to evaluate your financial performance year on year using the financial information and a range of financial ratios to identify any trend analysis. This evaluation step will clearly show how the business has performed year on year and what has influenced the changes.

For example, over the last 3 years, you may have grown your turnover, but has your margin slipped? A small percentage slip in margin could result in a larger number impact on your bottom line. Such analysis, helps you identify the trends and establish if that was a conscious decision or something that needs to be addressed by establishing why.

We recommend that your evaluation should provide you with a clear picture of your overall business performance rather than simply seeing if the headline numbers have increased or reduced.

As an example, here is a year on year comparison spreadsheet, but do consider what KPIs you will measure, as it is not always the same as what everyone else does!

		Current year		Last year		Previous year
		£		£		£
Turnover						
Cost of sales						
Gross profit						
Gross Profit Percentage	%		%		%	
Overheads in summary						
People Costs						
People costs as % of turnover	%		%		%	
Premises costs						
Bad Debts						
Other overheads						
Total Overheads						
Net profit before tax						
Net Profit Percentage	%		%		%	
Taxation						
Retained profit						
Balance Sheet						
Fixed assets						
Current assets						
Stock						
Trade debtors						
Debtors as a % of total current assets	%		%		%	
Cash at bank and in hand						
Current liabilities						
Bank & Loans due within one year						
Trade creditors						
Taxation due						
Director's loan account						
Net current assets						
Long term loans & other liabilities						
Net assets						
Other information						
Number of sales invoices raised in the year						
Number of customers						
Average Sale Value						
People employed - direct						
People employed - administration						
Average salary						

Compare

How do you compare against your competitors?

How do you perform against your competitors? Do you benchmark your business against other similar businesses, so you can compare your key performance indicators against those in the same line of work?

Benchmarking can be very informative and can provide you with a focus area for the small changes that can lead to big changes in your performance. It will also highlight if you had a good or bad year compared to others in your industry and avoid simply relying on that gut feeling.

Decide on the key numbers and financial ratios you want to compare and map your performance against the average in your industry or a specific competitor. You can obtain such information from numerous resources, including companies house or credit reference companies.

At CRM, we share a resource database compiled by accountants across the UK. The colour coding is useful to provide a snapshot overview of how you compare and which areas you may wish to review.

	Your Data	Competitor / Industry Data	Difference	
Current Ratio				
Gross Profit Margin				
Net Profit Margin				
Stock Days				
Trade Debtor Days				
Trade Creditor Days				
Interest Coverage Ratio				
Debt Service Coverage Ratio				
Turnover per Employee				
Profit per Employee				
Turnover Growth				
Profit Growth				

Profit and Loss Statement

Turnover				
Cost of Sales (COGS)				
Gross Profit				
Overhead Expenses				
Payroll				
Rent				
Advertising				
Operating Profit				
EBITDA				
Taxation				

Balance Sheet

Cash (Bank Funds)				
Trade Debtors				
Total Current Assets				
Trade Creditors				
Total Current Liabilities				

Consider the value of your business

How much is your business worth? What non-financial factors influence the valuation? How has the valuation changed since last year?

This may not be the actual valuation to sell your business today, but a valuation is a good tool to measure performance and progress. When completing a valuation, it will help you consider your financial performance and those non-financial factors that have impacted the resulting valuation over the last year.

There are a number of valuation models including Net Assets, the price/earnings ratio, discounted cashflow and the Industry rule of thumb (e.g. Turnover or profit multiplier). We encourage you to use a consistent valuation method to more clearly demonstrate if the recent activity has influenced the value of your business.

This can be an extremely useful guidance of progress, especially if the business value is for your future wealth creation and likely to be your exit plan or pension fund.

Which valuation model is most applicable to your business?

What is your current valuation?

What factors influenced your valuation?

What non-financial factors do you consider impact your valuation?

eg How reliant is the business on you or key people? Is the business systemised? How effective is your communication (internally / externally)? Do you have a plan? How do you manage performance? Are you reliant on one supplier or customer?

Analyse

How much more profitable could your business be?

Do you have the potential to improve your profitability and valuation in the future? Have you considered the worst and best case scenarios for your business?

We believe that you will find this analytical stage extremely beneficial for your business and well received by stakeholders or finance providers to the business. Your business never really stagnates, as it is usually moving forward or backwards. Which direction will you take next?

For this stage, we recommend that you sit down and proactively spend time considering the potential of your business and even involve people outside your usual decision making team, such as other team members or your trusted advisers. This stage can be as regular as you like, but should certainly be undertaken at least once per year.

One way of undertaking this review is by using a sensitivity analysis. What could be done differently and what would be the impact of certain situations? Such an exercise will suggest how certain improvements can be made to make a difference in your business and at what cost or investment. This could be more sales, the improvement of your margins or driving lower costs.

During the review, keep in mind your objectives, your team, your customers and your suppliers.

The improvement potential of your business may be just a few simple changes that help to improve your profit and your cashflow.

As an example, ask yourself 'What if?' questions, such as:

What would be the impact if you lost your best customer?

What would be the impact if you doubled your turnover in the next year?

What would be the impact if interest rates were raised by x%?

Your performance improvement potential should at least cover the following key areas:

- Improve your cashflow and liquidity
- Profit and Margin development
- Efficiency improvement factors
- Turnover growth potential
- Borrowing and debt management review
- Maximising your Asset utilisation

How can you improve your performance?

So, you know what you want to do or need to do, but how are you going to make it happen?

The 8th step is to establish a performance improvement plan that keeps you and your team accountable and establishes how this can be practically delivered in the business.

A performance improvement plan provides a continual focus of making the numbers work in your business for your success.

Your improvement planner will provide you with a list of high pay activities that you need to action, without distraction, to make it happen?

How will you improve your operational efficiency and give yourself the competitive edge? Record how you will make it happen, how you will calculate the measure of achievement, the reason why you are implementing the change and how it will impact the business.

How	How Calculated	Reason	Impact	Notes

Action planner - complete as many actions as you need. Take these forward and repeat steps 1-8

Action	Responsible	Priority	Completed