Resolutions for Success: Planning Now for a Prosperous 2016

by Heather R. Johnson

Small business owners often spend so much time on the daily tasks of running a company that they lose sight of their financial benchmarks. It's not just worthwhile; it's essential to block out time to review your 2015 goals to ensure a more profitable, productive 2016.

In addition to reviewing operational, sales, marketing, and employee relations targets during a year-end review, business owners should assess three key financial components: budgeting, cash flow, and account receivables. To grow to the next level, you must know where you stand.

Plan ahead

Whether it's the first or the twelfth time you've studied your books and records this year,conduct the annual review well before tax time. Lee Lambert, director of California's Alameda County Small Business Development Center, suggests business owners review records as early in the fourth quarter as practical. This gives you time to make adjustments before tax season.

A CPA can provide managerial accounting advice to help you meet your financial goals and potentially give less to the IRS. "Review the business from operational and tax standpoints," says Lambert. "There is a lot you can do to keep cash in your pocket."

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Budget for success

A budget assessment should go beyond whether the business stuck to its 2015 budget. Nick Rodites, a director with Capital Strategies Group, an advisory firm based in Orlando, Florida, says that the first question a small business owner should ask is: "How risky are my sources of cash?" "Take a look at your customer base," says Rodites. "If any one customer represents more than 10 percent of your revenue, it's time to diversify. If you lost them, it could have a major impact on business."

While reviewing your customer base, also consider its cash flow quality. Single out your A-list customers—the customers that pay on time and bring you the most profit. Imagine ways to generate more business with those customers and find more customers like them. When you highlight your ideal customers, you'll also find the less-than-ideal. "I hear a lot of business owners say that the economy is coming back, but they're working harder for the less or same profit," says Rodites. "If you're not working at a margin that's as good or better than the past, you're not performing better." Consider whether you can let go of "high maintenance" clients.

In terms of budgeting for the next year, Lambert suggests that business owners assess whether they have financing, systems, and employees in place to reach those 2016-and-beyond goals.

Know the cash flow

A cash flow statement shows the changes in your cash as it flows into and out of the business over the past year. It's a useful end-of-year tool to see how you used your cash and how to manage it better to meet your business goals. The statement is usually divided into operations, investing, and financing activities.

"Some small business owners only look at their checking account balance or cash on hand, which has nothing to do with cash flow and working capital," says Rodites. Important questions to ask include: How many days of expenses will my cash on hand cover? What are my working capital requirements? Working capital measures a company's current assets and liabilities. The assets-to-liabilities ratio determines whether a business has enough short-term assets to cover its debt.

"Keep a close watch on working capital and the metrics around it," says Lambert. "Look at accounts receivable and whether you're getting the maximum opportunity with payables, such as early payment discounts. Watch operating margins, because red flags do come up."

A CPA or financial planner can help create a budget and forecast—they'll want to see it anyway during the year-end assessment. Rodites suggests that business owners compile reports that include key performance indicators (KPIs) and budget forecasts. Common KPIs include cash on hand, account payables and receivables, working capital, lines of credit, and gross profit margin. Accounting software such as QuickBooks or Xero, or even an Excel spreadsheet, can generate cash flow statements.

Review receivables

Review account receivables before the end of the year to make sure clients pay all outstanding invoices. For the year-end review, study how each account ages. Contact customers that have recently started paying 60 instead of 30 days out, for example. Consider whether to cut off a chronically delinquent client. “It’s a soft science,” says Lambert. “It really depends on how well the business knows the customer.”

Study sales trends. Compare any spikes or depressions with account receivables to rule out any data-entry related errors. Make sure to correct any errors by year’s end to ease the process of closing out the books.

Adjust and move forward

Armed with information about the year’s budgeting, cash flow, and receivables history, business owners can make necessary course corrections before the year closes. “Make a priority list of things that need to be invested in or changed,” says Lambert. Compare this priority list with your goals for the coming year. “Now that you’ve set the goal, what do you need, credit or otherwise, to meet those goals?”

Lambert suggests that business owners also survey their industry and competitors. Consider any significant shifts when strategizing for the New Year.

Finally, don’t forget your most valuable asset—the customer. “Find out if they are happy, why they use your products or services, and what would cause them to leave,” says Lambert. “Get an assessment of where they sit and compare that with your competitive analysis. Why do you win or lose?”

The year-end business review takes time, and the information can sometimes overwhelm a busy business owner. But the effort is worth it. “The business not only gains more knowledge,” says Rodites, “but owners will have tools they can use to better manage their finances.”

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