

## Union Bank Small Business Focus

### Three Ways to Plug Profitability Leaks

Learn how you — and your employees — can identify and correct cash flow problems and make your business more successful.

In a challenging economy, lower sales and slower payments put more pressure on small businesses to improve their cash flow management. To maintain profitability, businesses must be extremely vigilant about payments and expenses, with an eye toward plugging profitability leaks. While watching expenses may not be as rewarding as pursuing new business, the payoff can be double: surviving tough times, and creating a solid footing for growth once business picks up.

Fortunately, you can plug many profitability leaks by following three key tactics.

#### 1. Re-assess your needs

Step back and look at how your business has changed in the past few years, and ask if your infrastructure has kept pace. For example, expenses such as office space rental and brochure printing have been replaced by telecommuting and Web site hosting. But even businesses that need a certain amount of office space can rethink the concept of one employee, one desk.

"Companies aren't putting as much money into brick-and-mortar space as they used to. The ones that are have employees share space and telecommute," says **Billie G. Blair**, president and CEO of Change Strategists Inc., a management consulting firm in Temecula, CA, whose own administrative assistants are remote. With a cell phone, laptop and wireless Internet access, employees can work from just about anywhere.

#### 2. Improve your processes

Profit can leak from a small business when procedures are either not clearly delineated or not followed. "There are between 80 and 120 functions that must occur in a business in order for it to be successful and profitable," says Christine Barry, a Vista, CA-based senior business analyst for IPA, a consulting firm that focuses on small businesses. "That's everything from paying bills to projecting cash flow. That's why you have job descriptions. You identify these functions and assign them in job descriptions, ensuring that someone is accountable for every single function."

However, no single individual should be responsible for all the steps in a process; for example, the person who serves customers in the field isn't the one who makes sure the invoice gets mailed. Having these processes clearly written down and easily accessible means that work will follow an established flow. This eliminates confusion and promotes efficiency.

Finally, formal communication should be built into the process. For example, a salesperson may book an order and forget to write it up. To avoid this, a business could schedule a regular weekly meeting between its sales and financial staff to recap events. This ensures that the billing department captures important sales data, protecting revenue and profits.

### **3. Talk and listen to employees**

There's a paradox in the idea of creating more rigorous policies and procedures: you have to build in the capability to change them. The process that works in a company of five may break down in a company of 25. One of the best ways to preserve profits and avoid waste is to harness the insights of the people who actually follow the procedures: your employees.

Too often, owners don't explain why they do what they do, or how their activities affect the company's profitability. "It's not the employees' fault," says Lanny Goodman, who has 20 years of experience consulting with small businesses in San Diego. "They just don't have a systemic view of how the business works. No one has ever asked them to take that view."

To combat this, educate your employees about where the business's money comes from and where it goes. "They may not know that for every dollar that comes in the door, only a nickel of profit may remain at the end of the day," Goodman says. If they understand this relationship and see that wasting paper increases the office-supply bill, "they can make better decisions."

One of the best times to tackle these profitability issues is when business isn't booming. You and your team have the time to step back and analyze not only how work is done, but also how it should be done. This is harder when you're scrambling to fill orders or deal with customer service issues. By taking the time now to identify where you're losing money through inefficiency, you'll be that much more profitable when the economy picks up steam again.