3.0 OPERATING THE BUSINESS

Having begun a business, it is the owners or manager's task to run it successfully and profitably. In this regard continuing consideration must be given to the following components

- Finance
- Marketing
- Personnel
- Computer services
- Production/purchasing

FINANCE

The concept of finance covers a multitude of activities including the supervision of cash flow, the creating and maintaining of records, checks to see that the business is on a sound financial footing, maintaining a tight control over debtors and creditors, raising of money to finance operations or expansion and keeping in touch with finance personnel. The need to plan the finances of the business is of paramount importance.

Financial records should not be seen as an historical record of transactions as they are often thought to be in many a small business's. Nor are they a

chore for some lowly employee to keep and take to the accountant at the end of the financial year to do the tax return and fulfil other statutory obligations. The financial records should provide a running summary of the business's performance so that at any time, rather than just at the end of the financial year, the owner or manager can assess how the business is performing. It is particularly important to have speedy access to accurate financial information in the early life of a business's, when the business is highly geared and during tough economic times. If the owners don't have basic accounting knowledge then they should have access to a reliable accountant, not only to properly instruct bookkeeping staff but also to monitor what they are doing. Furthermore, discussions with the accountant will assist the owner in understanding monthly performance figures in a meaningful and objective way.

If you use in-house staff to keep the records you will need to ensure that proper controls are established to prevent fraud or at least to minimise the risk of fraud. The following minimum precautions should be taken:

1. The money functions should be shared by at least two persons. Cheating then becomes more difficult because it necessitates two people to be involved in the deceit. The people handling cash should not be writing up the books.

2. Cheques, receipts, invoices, credit notes and the like should be prenumbered and kept locked away in a safe place.

3. All money and particularly cash should be banked daily, and the bank deposit slip should tally with the cash [receipts] book.

4. All payments should be made by cheque or bank deposit so as to create a written and traceable record.

5. Make surprise inspections of stock and cash

6. From time-to-time send out statements to the clients/ customers requesting confirmation of balances due. This will protect against the situation where the dishonest employee sells some item of stock and pockets the sale proceeds. He/she will always have to invoice the missing stock as a sale otherwise it will show up on a stocktake. Needless to say, the invoice must be held back from the customer, who never received the goods.

7. Conduct regular stocktakes for much the same reason.

8. Implement strict credit control measures. In times of dwindling levels of commercial morality there are those who will obtain goods on credit without having any intention of paying for them and of course there are those who do so with reckless disregard for their obligation to pay. In any event it is important that you vet those to whom you give credit and best of all, avoid giving credit if you can. When you have agreed upon payment terms, ensure that they are adhered to.

MANAGING THE CASH FLOW

Just because the business is profitable does not necessarily mean that it will survive. Attention must be given to the cash flow. Cash must be available to pay for the debts of the business as and when they fall due. It is not sufficient that the business is showing a profit. If for example the profits are represented by money owed to the business by its customers/ clients then a situation can arise whereby, because there is no cash available to pay the creditors a profitable business can be threatened.

If the business has insufficient funds to service, its day to day needs then it is said to be undercapitalised. This can have the following results;

- Stock acquisition in volume or at particular times when the prices are favourable or maybe at a discount cannot be financed.
- Stock is cleared at silly prices to cash up in order to meet normal financial obligations.
- Up-to-date equipment cannot be purchased.

To assist in determining the cash needs of the business, one should prepare a cash budget which tells you when money is coming in and when it is to be paid out. With this knowledge at your disposal you will be forewarned as to the times when payment must be made. At those particular times there may not be sufficient cash to meet the payment. In such cases, maybe a short-term loan/overdraft could be arranged in advance and thus the crisis is avoided.

STOCK CONTROL

The business must endeavour to have the right goods at the right time and at the right price. If the business has stock that the customer wants then most likely there will be a sale and if the stock is not available at that time, the sale may be lost forever.

Conversely if the business is over stocked, then too much of the capital of the business is tied up unnecessarily. A constant check must be kept on stock which is out of date, the wrong colour, size or otherwise unlikely to be sold within a reasonable time. Steps must be taken to clear any excess or slow-moving stock.

Stock takes should be regularly undertaken to ensure that what has been ordered has in fact been delivered and that stock is not being pilfered.

CREDIT CONTROL AND RISK

Most businesses would prefer all sales to be paid for in cash or by direct deposit and in that way, there is no delay between when the product is delivered or the service is provided and when the money is received. No doubt competition in the market place causes an apprehension in business proprietors that if they do not give credit, they will lose business. Sometimes the apprehension is justifiable and sometimes it is not.

In granting credit, the proprietor should be both careful and discriminating. The ordinary business person does not have any experience in evaluating credit risk and certainly did not set up in business as a money lender or credit provider.

In offering credit to customers, the proprietor should be guided by the golden rule:

- Only give credit if it is absolutely necessary
- Make a risk assessment beforehand
- Ensure the least amount of bad debts possible

In the pursuit of this objective we should always be prepared to reject an offer of business from someone who is evaluated as risky. It is far better not to do the business than to do it and not be paid for it. In giving credit which becomes a bad debt, the business proprietor has not only lost the profit on the sale but also the cost of the goods or services provided, and the cost involved in handling, selling, delivering, etc. Simply stated, the proprietor has paid out money to accrue a bad debt.

When trying to evaluate a person or company for credit risk we should consider the following:

- Salary or other income.

- Stability.
- Asset backing.
- Any Security given.

Arrangements with a customer are normally measured in terms of the time permitted to pay, i.e. 30 days. If that time is exceeded then the account should be frozen, i.e. no more credit should be give after that time and procedure should be immediately put in train for collection.

Many do not chase their money as they feel that it would upset the customer. Keep in mind that the customer has broken the credit contract and in doing so endangers your business by using up your valuable working capital. If too many credit contracts are broken by too many customers, then you will either run out of money yourself or be forced to borrow in order to finance your business. In reality, the customers are forcing you to finance them.

CONTROL OVER CAPITAL EXPENDITURE

Capital expenditure is the money that is spent on buying assets such as

land, buildings, motor vehicles, plant and equipment. This normally necessitates a large expenditure and requires very careful consideration.

Firstly, one must evaluate the necessity of the item. Will it increase output or efficiency? Will it reduce costs? Will it make the business more profitable? One must be extremely careful with this evaluation process and particularly from whom you take advice. The providers of these items, as a marketing ploy, send their representatives into the market place, allegedly with the ability to advise you, when all they are really doing is trying to sell their goods to you whether you need them or not.

In many if not most cases, the benefits to be derived from capital expenditure are calculable and therefore the person who can best assist is your accountant. Buying the latest equipment will not help your business or at least will not help it to the extent possible until you have addressed any existing inefficiencies.

Of course, you should consider whether you need new or second-hand equipment; do not let your ego drive the decision-making process. There are a number of factors to take into account, not the least of which is availability and price. The market for various bits and pieces varies mainly according to a number of economic factors and it may well be worthwhile

to wait for the right time to make a particular purchase. Waiting can also see new versions on the market which generally means that there will be trade-ins for sale on the second-hand market. Waiting can also provide the opportunity of selecting the best borrowing climate, if you are financing the purchase.

The decision to buy capital assets must also involve consideration of the cash flow. If the purchase is to be financed out of the business itself, then you must consider whether this can be done without affecting the business' ability to meet its other usual expenses. Thus, the acquisition of any asset must be questioned from two points of view:

- Does it improve the profitability of the business?
- How does it affect the business's liquidity and ability to meet short term debts?

SURVEYING THE MARKET

It is not sufficient reason to commence a business just because of a desire to own one or because of a belief that you have a saleable product or idea. The business world has graveyards full of businesses based only on good products and, or good ideas.

One must look closely at the market place to determine whether there is a place for ones proposed business. In other words, research needs to be carried out to determine, that there is a demand for the goods or services which your business intends to provide having regard to the needs of the consumer, the price competitiveness of the goods or services and the competition which exists.

You can commission a market survey by a marketing consultant or undertake your own survey. In many instances, the latter is the most desirable, because you are best person to test the water because you have the requisite product knowledge and an understanding of its application. It is often quite expensive to retain a market researcher because of the time necessary to acquaint that person with the product and its applications.

There are often statistics available to assist in understanding the market, the volume of the particular goods and services which it consumes and the number of business's providing them. When there are either no statistics or alternatively inadequate statistics then one has to resort to other methods of evaluation such as:

- mail outs, with a response coupon

- telephone campaigns directed to potential consumers designed to elicit an indicative response

- If the profit margins are small, then it is fair to assume that either the demand is low or alternatively the competition is strong. On the other hand, if the margins are substantial then there is a high demand irrespective of the competition.

- Searching the internet

An evaluation should be made as to the effect upon the market of various conditions including economic ones and the subsequent demand, for the product or service. There are limited criteria for such an evaluation, however an intelligent analysis of the problem should tell you how a given market will respond to a given set of circumstances. In light of the experience of the 1980's to date and the credit squeezes of the 1960's & 1970's it can be seen how important it is for business to take account of extraordinary circumstances.

If in any doubt about how to go about a market evaluation, then by all

means pay for the services of an expert market researcher. To misunderstand the market into which you are about to enter is a recipe for disaster.

ATTACKING THE MARKET-MARKETING

Once it has been determined that there is a market for the goods and services and the business has been set up, the next step is to get your message across to potential customers.

There is a great number of mediums available to advertise to potential customers. There is the tabloid press, T.V., radio, trade journals, web sites and so on, which are directed at the mass market.

In the early phases of the life of a business, it is better to make a more direct approach to a smaller section of the market in which a personal association can be formed. For a business in a location where its customer base is close at hand, personal contact can sometimes be made by means of the telephone, by mail or by introducing oneself. A business that has a specific market, could find out who have a need for its goods and make a limited approach to them alone. It is always important to form an understanding of the customer's requirements before making an

approach. The emphasis should be on what the consumer wants and not what the business seeks to provide.

The direct approach is often the most effective. A small and satisfied client base is often the beginning of a larger and more diverse one. A satisfied customer should be valued because, they are not easy to come by; they are integral to the business' survival and are a reference to encourage other customers.

Whilst this approach at first glance may seem too limiting, it will see the business grow at a rate with which the initial capitalisation and evolving management skills can cope.

Goods and services must be priced competitively as most consumers will be influenced by the price. Price can be set in a number of ways. If the market place is particularly competitive then you must pitch the price low to make it difficult for new competitors to enter the market and to be price competitive with or cheaper than your competitors.

Where the market places are not so competitive, then either charges what you think the market will bear or alternatively charge on a cost-plus basis.

Alternatively, you may simply choose to follow the price structure of some other business which is dominant within the industry.

PERSONNEL

Employees are valuable human assets. You should take positive steps to make them feel a part of the business; that the healthy growth of the business is in their interests as well as in yours and that their worthwhile contribution to the business is appreciated by you.

To maintain morale and good relations between management and staff a number of factors need to be kept in mind:

- The employer should structure the business so that the work functions are varied to provide the employees with opportunity for promotion. Otherwise they may lose interest, become less productive or leave altogether.

- Promotions wherever possible should be made from within the firm and assessments for promotion should be based solely on merit.

- Employees have a right to work in safety. A safe work place will save

time and money in the long term.

- If it becomes necessary to dismiss a staff member then it is in the interests of all concerned to do it swiftly so that the employee leaves immediately otherwise it is likely to be uncomfortable for that person and for the rest of the staff. Sometimes the person dismissed is discontented and angry, so may seek to take some advantage or to do some damage to the business.

The biggest single expenditure for a business generally is staff. Management should have in place means of attracting good staff. This may be accomplished by adopting good recruitment and training practices. It may be necessary, depending upon the type of business involved, to set up training programmes so that existing and valued employees can keep pace with changes in a dynamic business, technological developments and work their way up through the ranks.

There are records to be kept by the employer which the law requires to ensure employees receive their proper entitlements, i.e. Industrial laws cover pay, holiday pay, superannuation, long service leave and sick leave and Taxation laws require the employer to deduct tax instalments and to forward returns to the tax office.