

ACTIVE PRACTICE UPDATES

JULY 2019

IDENTIFYING INEFFICIENCIES IN A BUSINESS

Avoiding waste, maximising profit.

Accountants, as a breed, are fans of efficiency. We tend to appreciate optimised systems and abhor waste, whether it's time, effort or resources being frittered away.

The concept of efficiency as we know it today is a product of the industrial revolution. That's when engineers and manufacturers became obsessed with squeezing out maximum profit by the smart use of new machinery and the automation of processes.

Without a doubt, the cult of efficiency figurehead was Henry Ford – founder of the Ford Motor Company.

In the run-up to World War I, Ford built a factory that applied every idea of efficiency, most famously, the production line.

This production line had factory workers performing the same task over and over again, at the same workstation.

Another of Ford's innovations was to restrict customer choice: "Any customer can have a car painted any color that he wants so long as it is black," he said in 1909.

Black paint dried the fastest, which meant more cars could be squeezed out of the factory every day.

Ford gambled on the fact that for many consumers, price was the main factor in purchasing decisions, and he was right.

The same thought processes are used by bargain airlines and budget supermarket chains, which carry fewer lines and more own-brand products than better-established competitors.

The internet has taken the pursuit of efficiency to the next level as multinationals use apps and algorithms to wring every bit of waste out of their supply and delivery chains to tempt buyers with the lowest possible prices.

The larger your business, the more likely it is that there are inefficiencies to be found, but even the smallest operations will benefit from taking the time to reflect on where their systems and processes can be tightened up.

DON'T BODGE IT, FIX IT

One of the key principles in achieving greater efficiency is identifying recurring problems and addressing the cause rather than applying the same hack every time.

For example, if you're spending hours manually updating information on your payroll system on a case-by-case basis each month, you may consider investing in automating the process. Alternatively, you might decide to outsource the whole operation.

Another good investment can be data cleansing – manually reviewing, say, your product catalogue to remove duplicates or expired entries, providing detailed descriptions, and tidying up how the information is recorded.

Time and resource spent on this can save hours of labour it would otherwise take to respond to individual customer queries.

It also makes it easier to automate client communications, and generally presents a more professional face to the world.

CASHFLOW EFFICIENCY

Poor cashflow is one of the greatest threats to the health of SMEs and is also an area where inefficiencies are rife.

Doing the work is one thing, but how often have you spent just as long chasing payment? Or simply never been paid at all?

Tighten up your processes by ensuring invoices contain all the information necessary to pay, state payment terms clearly, are boldly labelled '**invoice**', and are despatched promptly.

You could automate the process of chasing payment, made easier than ever by modern online accounting packages.

It helps to have an established escalation process – adding interest to late payments or charging a debt recovery fee.

You can charge £40 for debts worth up to £999.99, £70 for debts between £1,000 and £9,999.99, and £100 for debts above this.

MAP YOUR PROCESSES

As with cashflow and invoicing, examining and recording processes across your business can flush out inefficiency.

It might flag repetition of effort, or bring to light that a particular task isn't being done by the person best equipped to do it.

Equally, it might suggest that some less skilled jobs could be delegated to free up the capacity of a valuable team member.

There's also potential to highlight where terms and conditions need tightening up to clarify exactly what clients are entitled to before additional charges are incurred.

Recording your processes can also save time bringing new staff up to speed, and avoid any stumble in service when staff leave.

As a rule of thumb, you don't want corporate knowledge locked away in the heads of individuals.

LOOK AFTER THE PENNIES

A popular approach to financing new businesses these days is known as 'bootstrapping'.

It assumes that most entrepreneurs can't resist wasting money on unnecessary luxuries – a fancy office, posh hotels, branded baseball caps, expensive advertising campaigns and so on.

Bootstrapping might not be for you but we would certainly advise any business to carry out regular spending reviews. Be hard on yourself, too – interrogate every penny.

Look at recurring payments – do you still need that software for which you're paying a monthly fee, or that trade publication subscription? Did you shop around for a new telephone supplier?

Try shaking out your supply chain, too. If you've got cosy with long-term partners, you might find you're no longer getting the best price, which means it could be time to source quotes from competitors, get hard-faced and renegotiate. If you're working with middle-men, think about options for sourcing directly.

Technology has created huge potential for savings. For instance, if you are meeting a client, do you really need to potentially pay for travel and accommodation, or could you achieve the same thing using free video software?

Some firms save a fortune on stationery and postage by mixing up their policies to go paperless, storing as much as possible in remote servers on the internet known as the cloud.

It might seem like penny-pinching to worry about £20 here or £30 there, but those small amounts all add up.

Knowing you need to justify an expense also promotes discipline around spending and encourages staff to assess the potential return on investment before they flash the company credit card.

CLOUD ACCOUNTING

The greatest potential for efficiency when it comes to managing your finances is to be found in cloud accounting.

With the right setup, and embedding it in your company culture, it saves time spent processing paperwork.

With anywhere, anytime live reporting and forecasting, it also enables you to make faster, better-informed business decisions.

RECORD, MONITOR, FORECAST

When cloud accounting software integrates with stock control and point-of-sale systems, and you start to build a picture of your business in data, things have the potential to get exciting.

Ensuring you're not carrying too much stock, or too little, is a vital component of achieving true efficiency – why should you be bearing the cost of warehousing on behalf of your suppliers?

Data can also help you identify recurring peaks and troughs in trade so you know how much extra support you might need.

This is a reminder, too, that efficiency doesn't always mean cost-cutting: having too few staff might mean turning away work or, worse, delivering a substandard experience to customers and damaging your business's reputation.

TAX EFFICIENCY

This is the big one from our perspective: is your business set up in a way that ensures it pays no more than its fair share of tax?

A business with the wrong structure, which is failing to claim tax relief to which it is entitled, and whose owners aren't thinking about the implications of how they go about drawing profits from the business, is like a leaky boat.

Talk to us about tax planning and we'll ensure you have every opportunity to reinvest in the growth of your business.

 **We can advise on the running of your business.**