



TREBLA MANAGEMENT GROUP, LLC

SOUND FINANCIAL MANAGEMENT IS CRITICAL TO A COMPANY'S SUCCESS

Every company has a life span that is depicted by its business life cycle. A business life cycle is normally defined by four stages: Introduction, Growth, Maturity and Decline. Most business life cycles will experience a slow introduction and growth stage, a short maturity stage and a rather quick decline stage. During a company's business life cycle, the level of management expertise and strategic decisions that are required to successfully extend the life cycle is only as effective as the extent in which the company's resources are utilized. Unfortunately, firms cannot control the external factors affecting their environment such as customers and competitors, but they can enhance their internal financial management activities.

Poor financial management is one of the top reasons most companies fail. Financial management is related to the financial structure of the company and the decisions surrounding the source and use of financial resources which ultimately determines the size of the resulting net income, or loss. It is extremely important that companies have access to timely and accurate financial information to make these crucial business decisions. Certain financial controls are needed to measure the overall financial performance of the business. Sound financial management insures that the company has in place a control system that establishes standards, measures performance, compares performance against standards, and then provides for a way to make proactive corrections when necessary. Too often, companies fail to devote adequate time or resources to implementing a well rounded financial management system.

Five Ways Companies Drop the Ball

For various reasons many companies' financial management systems are inadequate, and fail to produce relevant information in an effective, timely manner. Following are the most common pitfalls surrounding financial management systems of U.S. companies:

Lack of Basic Financial Information. For financial information to be of value to a company, it must be accurate, relevant and shared in a timely manner throughout the organization. For example, sales managers should receive periodic sales reports, and other managers should receive financial reports by divisions, department, or product line. In most cases, a business does not fail because this information does not exist, rather it is not communicated in a timely manner, or at all.

Financial Information is Ignored. Even when accurate financial information is prepared and timely communicated, too often the decision makers do not take the time to truly comprehend the information, or do not possess the skills to understand and interpret the information. Management must obtain the necessary knowledge required to understand the financial data presented, either through education or coaching.

Lack of Comparison Data. For numbers to be truly useful, they must be compared to other numbers. Is a gross margin of 35% good or bad for your company? To answer this question, you must have knowledge of what the gross margin was in prior periods, budgeted gross margin for the period, and the average gross margin for the industry. Too often, companies do not have budget information, nor are they aware of industry financial information.

Lack of Forward Looking Reports. Under numerous situations, companies only focus on historical cost accounting information. Many companies are at a disadvantage for not utilizing more financial projections and forward looking reports into their decision making toolbox. Too often companies fail to produce projections and revised projections throughout the year.

If your company constantly looks at where it has been and fails to look ahead, it could possibly encounter an obstacle that could have been avoided.

Lack of Event Triggering Reports. Financial reporting systems have the ability to notify the appropriate people when certain situations have occurred. For example, when cash balances fall below a certain level, when inventory levels are too low or high, or when gross margin for a specific product has declined below acceptable levels. These triggering devices provide management with timely information to take proactive action. Too often companies do not take the time to establish such baseline criteria and set up event-trigger notices.