

Entrepreneur

MONEY

ASK THE
MONEY
GUY



Spend it wisely

Q: What are the best strategies for analyzing expenses in my business?

A: While analyzing expense trends is vitally important, I have to first ask if you, the business owner, are the most qualified person to do this task. What's important here are the answers, not the time spent analyzing expenses.

If you have a CFO, he or she should already be doing this analysis for you. And a really good controller will be proactive about doing this kind of work. Bear in mind, however, that it's beyond the skills and experience of most bookkeepers.

That said, I understand the entrepreneurial drive to try to find the answers. So if you're going to go it alone, or you just want to understand what your CFO or controller should be doing, here's a step-by-step plan.

ANALYZE THE INCOME STATEMENT.

For every line item in the operating expenses, calculate the dollar amounts and percentages of revenue. Your accounting reporting software (such as QuickBooks) should be able to spit out reports like this very easily. Compare the numbers to last month, the last three months, the average of the last three months (called "rolling average"), average year-to-date and the same month last year.

Next, examine the "why" behind the numbers. I had a client whose park-

ing-ticket fines for his delivery trucks jumped significantly compared to the last quarter and last year, and it was killing revenue. Turns out the city had tightened its enforcement. We shifted the delivery schedules and hired a ticket-fighting service that more than paid for itself.

COMPARE "ACTUALS" TO BUDGETS.

One of the most important financial management exercises is the creation and use of a budget—the examination of all your expenses and estimation of what they will be next year. This will automatically get you thinking of the drivers behind each expense. And don't worry, your estimates will nearly always be off-target, but if you understand why a line item is going considerably over budget, you'll know what to fix and how.

USE A DASHBOARD.

Boil down your actuals to the absolutely most significant numbers and trends (profits, expenses, revenue, cash flow, etc.) and compile them into an easy-to-read dashboard. There are dashboard programs available for businesses of all shapes and sizes that can extract the data from your bookkeeping software and post the numbers automatically. This will allow you and the management

team to instantly spot trends and problems on a weekly—or even daily—basis. These are your business's vital signs and, good or bad, knowing them will help you sleep better. Trust me.

MAKE INDUSTRY COMPARISONS.

Reliable and relevant industry numbers can be hard for a single business owner to come by without spending a good chunk of money, but they're critical to running a smart business. I used a commercial service called ProfitCents by Sageworks to work with an owner who initially thought his sales expenses were very low. But ProfitCents said they were double his industry average. Consequently, he reorganized his sales department and was able to save more than \$100,000 per year.

Lacking that, try industry trade associations for any data, such as expense ratios, and ask other local businesses that are roughly the same size as yours—not competitors—to share their expense data. You'll get a good idea of the costs for rents, salaries and other services in your geographic location. —Joe Worth

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