TIME FOR A CHECK-UP

Is your business in good health? Follow our guide to do a thorough analysis of your company's operations.

By Betsy Cummings

Think your business is humming along because sales are up? New business deals are easier to come by? Client spending is increasing? No doubt, that's a good place to be – and it's where many industry companies find themselves right now. Distributors achieved a record amount of revenues in 2014, reaching a total of $21.5 billion, which is the largest annual total ever. Further, the *Counselor* Confidence Index – a measure of distributor outlooks on their future prospects – also reached an all-time high at the end of 2014.

Of course, company operations run deeper than just the top line. While those are certainly indicators of business health, keeping the pulse of your company's well-being is an ongoing process, even – or, perhaps, especially – during good times.

To gauge exactly how distributors should get the pulse of their operations and analyze how really healthy they currently are, we talked to business consultants and industry experts alike to find out their top tips for conducting a business check-up. It's an analysis that winning companies do on a regular basis to ensure that they're always set up for success.

Read on to better assess the current state of affairs at your distributorship.

Always Be Reviewing

Nothing is more important at BrandAlliance Inc. (asi/145177) than WIGs. But not the kind you're thinking of. Wild Important Goals are key indicators of the company's health, says Alan Chippindale, the Toronto-based Top 40 distributor's chief business development officer. WIGs might be created for sales excellence, marketing objectives or increases in national accounts. And while some are long term and never ending, Chippindale says, they are all reviewed monthly, and are all communicated to employees so that their work focus coincides with goals that are more likely to boost the company's short- and long-term growth.

These days there are as many acronyms – SWOT, KPI, DUNS number – as there are possible challenges for a small-business owner. Knowing which acronym to use to gauge corporate vitality can be daunting. But there are a few key indicators that most experts swear by. For starters, distributors would be wise to conduct a SWOT (strengths, weaknesses, opportunities and threats) analysis once a quarter, says Darnyelle Jervey, CEO of Incredible One Enterprises, a business consulting and coaching firm in Newark, DE.

Jervey says this should take no more than 90 minutes to identify SWOT elements. But it's what executives do with those identified areas that's most important, she adds. One of the keys is to make sure your SWOT team includes the right people (even clients) and is the right size (10 or less is a good number to stick to). Conducting SWOTs quarterly allows companies to be more proactive than reactive when problems are identified, as opposed to doing an analysis once a year and realizing that you may be too late to right the ship. "Doing it quarterly allows you to make adjustments in real time, instead of waiting a year and saying, 'that didn't work,'" Jervey says.

Being so committed to the details of corporate health can be laborious, to say the least, says Dave Thompson, president and CEO of National Pen (asi/281040), a Top 40 distributor based in San Diego. But it's necessary a very detailed annual budget is reviewed every six months "so we have the opportunity to modify some of our assumptions and update our projections," Thompson says.

On top of that, the company scours a more detailed report of profit and loss statements and company cash flow. "Literally every Wednesday, the top 15 people of the company go through an hour-long update about sales, shipments, operational aspects of our business, our inventory position and so on," Thompson says.

Being in a constant state of review can be exhausting, but it is imperative to remain ahead of potential issues that could crop up throughout the year, he says. In fact, it's a rare review in which a red flag isn't raised about some aspect of the company's overall well-being. That these concerns are caught early means they rarely undermine National Pen's business health. To resolve potential issues, Thompson says, they've adopted the acronym PDCA (plan, do, check, act) to look at the root cause of possible issues, then plan accordingly to resolve them.

Quarterly analyses not only help companies gain clarity on what's working or not, but they help identify areas of waste as well, experts insist. Jervey says small-business owners often fritter away money in unexpected ways – entertainment, meals, gifts, even unused URLs that a firm is paying for but not using.

When cutting expenses, Jervey says, execs are frequently scared to cut big line items. "No one wants to rock the boat, so going after big line items can be challenging," Jervey says. But that's OK. "Smaller line items do add up. Start with those unless there's a glaring big item you know is excessive and you don't need it."

Straighten Out Credit

It's not uncommon for a small distributor to open up a line of credit using his own personal information. For someone working out of his home that is a one-man shop, this may be the fastest way to receive a corporate credit card and funding for orders. It's also the worst move a distributor can make, says Amber Colley, director at Dun & Bradstreet Credibility Corp, based in Greensboro, NC.

For starters, doing so puts all of your personal possessions on the line should your company run into financial difficulty, Colley says. Not to mention that intermixing personal and business expenses and credit lines can muddy matters come tax time and decrease your credibility with vendors.

It's far too great of a liability, and there are plenty of other ways to build up business credit ratings, she adds. For starters, Colley suggests that distributors pay their bills on time, starting with the largest bills first. Want to boost your credit score? Start paying earlier than the terms of your invoice – net 20 when it asks for net 30, for example. "That's recorded in your company's credit history and has a really heavy weight" in terms of an improved credit score, Colley says.

Establishing better credit can impact insurance premiums, interest rates on loans, vendor terms moving forward and pricing. "If I pull your business credit file and see that you've paid your bills slowly," Colley says, "I may do business with you but on shorter terms and increased pricing."

Take the time now to ensure your credit is improving – and to remove any ties between your personal and business credit lines. Separate them to protect yourself and your business moving forward.

Gauge Your Engagement

Many companies tend to analyze the success – or, lack thereof – of their marketing campaigns when sales are falling, but really the best time to do it is during boom times. This is when you can truly see what's working best and what's lagging behind.

"Most small businesses rarely take a comprehensive look at their marketing, and most don't have actual marketing plans," says Bill Corbett, president of Corbett Public Relations Inc., a media relations consulting firm in Floral Park, NY. That's a problem, since one of the biggest mistakes companies make when it comes to marketing is not spending dollars wisely, says Lorrie Thomas Ross, CEO of Web Marketing Therapy, a business consultancy based in Atlanta.

"You can spend and spend, but are you investing?" asks Ross.

Too often companies dedicate a sizeable portion of their budget to advertising and marketing without measuring the results. In the case of marketing, the better measurement term might be ROE (return on effect), Corbett says, rather than ROI. If time spent marketing results in measurable engagement with clients, whether it's income generating or not, that's a success that should also be measured, he adds.

Regardless of what's being measured, "a lot of folks don't know how to analyze marketing data, or they look at it too myopically," Ross says, adding that they leave interpretation to human analysis as well, allowing well-intended but biased evaluations to come into play.

That's almost inexcusable these days thanks to online analytics, many of which are free. Social media, for example, can be tracked to see if it's driving traffic to a company's website. Similarly, services such as Google Analytics, track the routes that bring people to your website, visitor interactions with your site once they're there and can help companies learn what visitors want once they've landed on a site or Web page. Something as simple as an article detailing a distributor's services on a website can be tracked to see not only how many site visits were generated via the article, but how many products were purchased as a result.

In addition, George Schildge, founder and CEO of Matrix Marketing Group LLC, a marketing consultancy based in Burlington, VT, suggests that distributors match revenue growth goals to their marketing budget. How? Start asking the questions that matter, such as what is your marketing budget as a percentage of that growth goal? Who's your target market?

Moreover, make sure the marketing dollars you do spend are getting the biggest bang for their buck. With client acquisition being one of a company's greatest expenses, it's crucial for distributors to figure out the lowest cost marketing methods to attract new business.

Looking at a company's "monthly burn rate" in terms of the ratio of marketing dollars spent to business brought in, for example, is one way distributors can also gauge ROI in real time, Jervey says. Within that burn rate should be expenses such as company lunches for the marketing team, or additional costs that might not otherwise be considered in the marketing budget. They may seem negligible, Jervey adds, but they add up fast.

Check Your Fiscal Fitness

Because their company consists of three business divisions and four primary offices, conducting system-wide business check-ups has become vital to corporate health in recent years, says Denis Harper, CEO of Silver Spring, MD, Top 40 distributorship Summit Group LLC (asi/339116).

"With 200 associates spread across the U.S, it's a challenge to make sure we're all on the same page and marketing more or less in the same way and hearing the same message and all interpreting the message in the same way," Harper says. To do that, the company has designated a "line of business leaders" who conduct weekly and monthly meetings to gauge financial, sales and operational performance as well as the organization's health in general.

It's a smart strategy for a distributor firm to employ, as regular fiscal and operational evaluations should be part of every company's strategy. In addition to quarterly assessments, Jervey and others advise distributors to conduct an expense audit at least twice a year in an effort to cut costs and increase profits. Too often, minor expenses slip through over the course of the year, and audits are often the only way for firms to realize that they need to tighten their belts once again, experts say.

Expense and financial audits are also a good time to identify key performance indicators (KPIs), says Jervey, which include client acquisition costs, marketing list prices, monthly expenses and other indications of outlay to revenue ratios. It's something that good business leaders are evaluating and monitoring regularly to ensure their companies are on a good fiscal track.

While the accounting team can serve an important role in assessing corporate costs on a regular basis, employees can play an integral role as well, says Joellyn Sargent, president of Claravon Consulting Group, a business consultancy in Milton, GA, and author of *Beyond the Launch: The Practical Guide to Building a Business that Thrives.* Often staff can identify expense issues, such as increases in shipping costs or dissatisfaction among key clients, earlier than management.

Sargent suggests distributors make a list of balloons which lift businesses up and anchors which weigh them down, to get a better sense of the ratio between healthy and unhealthy business indicators at their company. Stagnant inventory, for example, is a troubling anchor, as is high employee turnover.

At BrandAlliance, other key indicators are assessed regularly as well, such as the company's balance sheet, profit and loss statements, cash flow and working capital. Financial indicators in particular are important, Chippindale says, due to the industry's volatility. "The cycles in our industry are increasingly hard to predict," he says, "so there is always variance."

Just another reason to do constant check-ups of your company's health.

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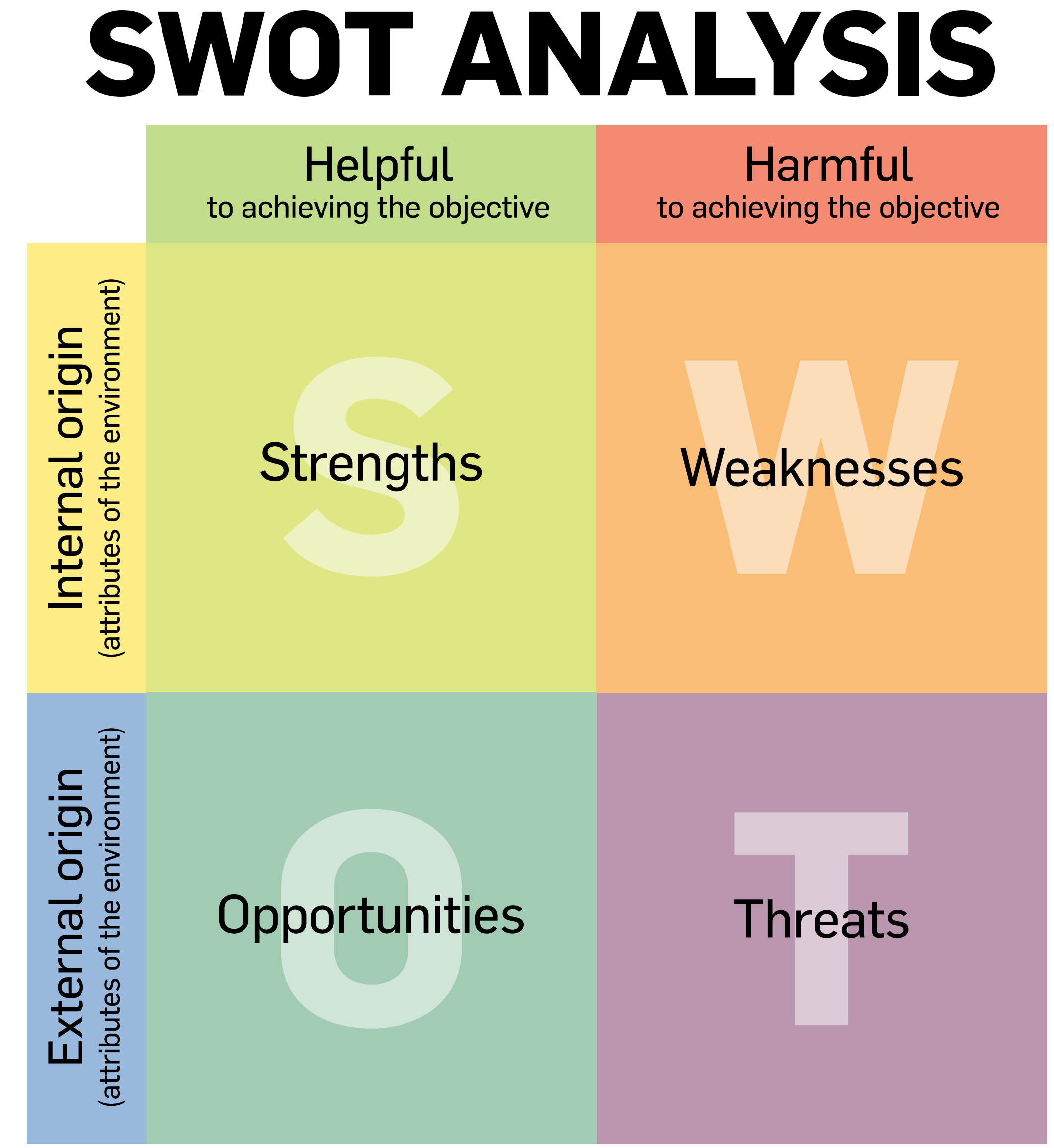
Taking the Temperature

Want to boost your company's overall business health? Here are a few tips to regularly evaluate your company – from both an operational and financial basis.

Always Be Assessing. You can't know how healthy your distributorship is without evaluating its strengths and weaknesses. That includes weekly, monthly, quarterly and yearly evaluations of operating procedures as well as finances. Also, make sure to take a fresh look at both opportunities and threats that your business currently faces. These can change quickly in the market today, so it's important for good leaders to constantly be evaluating where new challenges, as well as new clients, can come from.

Query the Crowd. Rather than asking a few key players to assess your company's business health, it's smart to ask employees (and even clients) as well. They often see indicators of company ailments – low employee morale, increased shipping costs, stagnant inventory – before the company's leadership team spots them.

Evaluate Everything. Sure, cash flow is important. But so is prospect engagement. While it's vital to measure just how much money a trade show lead brought in, it's also important to measure more esoteric indicators, such as how many website visits were generated from the latest social media campaign.



Experts suggest business leader do regular SWOT analyses that gauge a company's strengths, weaknesses, opportunities and threats, and considers both internal and external factors.