

THE STAPPAS PERSPECTIVE

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ARE YOU PREPARED FOR 2010?

During the past one to two years business owners have experienced a severe market down turn, the (according to the media) near collapse of the economy, high unemployment, the collapse of the housing market, and high bankruptcy rates for both individuals and business'. The BIGGEST problem for the typical business owner has been inadequate cash flow thus the difficulty in paying bills/payroll. Now the economy is "on the mend" and the question is, are you prepared and have you learned from the mistakes of the past?

Here is a list of items to help prepare the business owner for 2010:

- 1 **OVERHEAD EXPENSES.** Review ALL overhead expenses. Consider an overhead expense as an investment and ask: a) is it needed, b) why is it needed, c) what does the firm get for this overhead investment, d) can this expense (investment), if needed, be reduced. Remember each dollar of reduced overhead expenses equals one dollar of NET profit.
- 2 **MARKETING/SALES PROGRAM.** Does the firm have an adequate and effective sales program? Consider: a) does the firm stand out in the market place, b) if so why, if not why, c) who is the firm's customer, d) what is the firm's target market, e) how does the firm get its customers, f) what can be done to expand the firm's customer base, g) does the firm have a GOOD data base of its current customers, h) what is the firm's average sale per customer.
- 3 **OUTSOURCING.** Investigate the financial and business benefits of outsourcing items such as bookkeeping, payroll, sales consulting, marketing, strategic planning. Outsourcing provides the services of experts without the expense of providing the same services internally.
- 4 **CASH FLOW.** All business owners MUST have adequate cash for the effective operation of the business and, as the past two years has shown, for the ability to withstand unforeseen circumstances. Check the cash and the sales when the business started and compare that to the cash and sales just prior to the economic decline. Sales had probably increased BUT cash has remained the same or less. Every firm must have a STRONG cash/short term investment position. Use large successful firms as examples.
 - a. MICROSOFT
 - i. 2009 cash \$31.4 billion sales \$58.4 billion
 - b. CALLAWAY GOLF
 - i. 2008 cash \$38.4 million sales \$1.1 billion
 - c. APPLE
 - i. 2009 cash \$5.26 billion sales \$36.5 billion

Ask yourself why such successful firms have such large cash/short term investment positions? Why do they not 'take all the cash out' in

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- 5 **BREAK EVEN.** What is the firm's breakeven point? This is the level of sales required to just breakeven and is calculated by dividing overhead expenses by the firm's gross profit. For example, the breakeven for a firm with \$400,000 in overhead and a 35% gross profit is \$1,142,857. Remember, a firm may breakeven but can, and probably will, have a negative cash flow.
- 6 **COST OF GOODS.** Has the cost of goods been reviewed and has the firm negotiated with its vendors for lower costs. Remember, the firm is probably a GOOD customer to its vendors and the vendor probably wants to retain the business. An example of negotiating a 5% reduction: firm have sales of \$1,000 with cost of goods at \$600 resulting in a gross profit of \$400 or 40%. Assume that the firm can negotiate just a 5% reduction thus reducing the cost of goods to \$570 AND INCREASING THE GROSS PROFIT TO 43% FROM 40%. This, in turn, reduces the firm's breakeven AND increases its NET profit without even increasing its sales.
- 7 **NET PROFIT.** Is the firm planning for increasing sales or increasing the net profit? The firm should determine the NET PROFIT it wants to achieve and then work into the sales required to achieve that profit goal.
- 8 **SHOW A PROFIT.** Always operate the firm at a NET profit. It is the net profit that provides cash for the business, it is the net profit that enables a bank to provide financing, and it is net profits that make a firm valuable for future sale.

PREPARE FOR SUCCESS

To be successful every firm MUST show a "good" net profit and must ALWAYS have adequate "liquidity" and MUST develop a STRONG balance sheet,

REMEMBER -- COMPANY'S DO NOT PLAN TO FAIL, THEY JUST FAIL TO PLAN

About Our Organization...

We provide complete and total STRATEGIC PLANNING consulting services to individuals that own and operate their own business as well as our exclusive BMA service that provides complete bookkeeping (saves an average of \$18,000 per year) and complete payroll (saves up to 70%). We help our clients succeed. Please contact us for more information. Call us or visit our web site for additional information.

