"Keep your balance to improve results"

by Richard P. Morgan CMC

Picture your business as a three-legged stool. The legs are Operations, Marketing, and Finance/Administration.

Now, picture yourself sitting atop that stool. If the legs are the same length, the stool is balanced and you can easily shift your position. When one or two legs are too short, the stool is unstable and hard to manage, right?

Here are some examples of unbalanced situations. A company expands facilities and production capacity with borrowed money, but fails to add marketing effort. Sales remain static. A shortage of cash occurs as higher facility overhead costs chew up working capital. The company begins to miss purchase discounts, lowering margins. A financial crisis looms.

Another company with highly aggressive marketing outpaces operational capacity and available working capital. Hurried processing causes high returns and allowances. Good customers leave, replaced by less desirable accounts at lower prices. Accounts receivable slow down and margins suffer. Profits drop and operational cost reductions only make the situation worse. At this point, no one wants to reduce sales to the prior level. Unplanned growth can be dangerous to a company's long-term health.

Focused, practical planning is the key to maintaining the balance and profitability of your business. Your desire to increase sales should consider the level of financial and operational resources available to support growth.

Today, present lines of credit or affordable loans to cover seasonal working capital needs cannot be taken for granted. A highly leveraged company may find the banker stone deaf to a plea for new financing, even when the need for cash is to support profitable growth. This is particularly true if the business is out of balance and financial ratios are lopsided.

Does this mean that growth is an impossible dream? Certainly not! Naturally, growth will be easier for companies with some available capacity who are now in a balanced condition. A balanced company will be better able to generate the added capital needed for greater sales through retained earnings. And, high capacity utilization usually generates greater overall profitability.

Companies that are short of cash and short of capacity or sales should first regain their balance and control of cash flow before attempting expansion. Good operational plans help business managers maintain that critical balance between marketing, operations, and finance/administration.

Remember, there are only three basic things you can do to positively affect operating profit and break-even point:
1) Increase profitable sales
2) Improve margins
3) Reduce fixed costs

An almost infinite variety of specific option combinations exist within these basic moves, however. Accurate, up-to-date information and careful planning really are essential for planned, profitable growth.

Each company has unique goals, challenges, and opportunities. There are no "pat answers" regarding strategies or tactics. My on-site business planning assignments with business owners strongly underline the need to maintain business balance while using practical management tools to plan future actions. My assignments also highlight the value of an objective outside perspective as you analyze your business situation and plan your company's future course.

End of article

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