

What to Do When the Sales Drop

By Travis Snider, Executive Director, Northwest Business Institute
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In a series of recent meetings, I have found that the majority of my clients are struggling with the impacts of a deteriorating economy. While they come from a variety of industries and face different problems, there are similarities in the tools they use for coping with the crisis.

Outlined below are a series of strategic steps and tools to utilize to ensure that you are prepared and positioned to successfully handle any economic circumstance.

1. **Prepare monthly financial statements that are timely and accurate.** Monitor key performance indicators (KPIs). If you're not tracking revenues, expenses and KPIs, you won't be able to tell if you are ahead or behind. Plan to review financial statements and key performance indicators each and every month as soon as last month's accounting is complete. Important information to track includes sales, net income and KPIs for the previous month and year to date.
2. **Compare actual results to a forecast and last year's results.** Forecasts provide a target to shoot for. If you don't have one, create a forecast for the rest of the year. Now compare it against your financial statements. Compare this year's result with last year. (These should all be in the same format to make comparisons easy).
3. **Note the differences between what you planned (forecast) and your actual results.** These variances are where to look to find corrections. Take the big variances and determine what it will take to get them back in line. If the gross profit percentage is below forecast, determine what's creating the difference. Is it pricing, the cost of materials or labor, or something else? When you have this information, make correction immediately. Any delay usually results in continued lost profits.
4. **Develop a system to accumulate the data.** It should only take 30 to 45 minutes a month to review your financial and operational data. Any longer and you may not take the time. Making this exercise a priority is crucial - it's likely to cost you thousand of dollars in the long-term by not doing it.

One client determined that results for his primary line of business would be down substantially from the prior year. As a result, he created a new revenue source to augment the primary business. Together the two revenue streams were expected to provide for slightly improved revenue. The primary business has dropped more than expected, but the new business line has been extremely successful. Taken together, his business has exceeded its expectations for revenue and net income so far in 2009.

A second client saw sales drop 7% over last year, but losses went up significantly. This was far off of the forecast developed just a few months earlier. Early detection of the difference set off a furious rethinking of assumptions and restructuring.

A third client experienced a drop of 16% in revenue in the first four months of the 2009, but net income grew substantially. The owner's work with the forecast early in the year provided insight to make changes before sales started to decline.

These clients all incorporated the above best practices in their businesses. Two achieved positive results using the financials statements and forecast to make changes in their operations early in the year. The other experienced unexpected changes in sales and profitability, but detected the differences almost immediately. By doing so, he still has time this year to make corrections and avoid losing money.

Over 60 years ago, Peter Drucker, the management guru said “you can’t manage what you don’t measure”. No one is sure what this economy will throw at us in the coming months. But, taking time to establish targets for sales, profits, and KPIs and monitoring them closely will help you manage your business more effectively.

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