



Finance Basics for the Non-Financial Business Leaders

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Many of us came into this industry with an engineering, music, IT, physical security, technical or sales background. Only a few have entered with a formal business or finance degree. Those select few have shared some ideas and tips that I would like to pass onto the rest of us.

You must create a dashboard for your company and keep your eye on these items every day. Find expertise in each specific field mentioned below and monitor the numbers contained within the categories listed.

Financial Statements

Truly learn how to interpret your own financial statements, and more importantly, learn to spot trends that will impact future financial reports. You don't have to be an expert in accrual-based accounting, but you should understand work in progress, the impact of early payment discounts as they relate to your credit line, the ratio of payables to receivables, inventory levels, stored materials, progress billings, etc. The relationship these key indicators have on your financial reports has a major impact on predicting your success or failure.

Monitor Employee Productivity

Use the tools we now have for reporting, measuring and documenting the productivity of each employee and use the comparative analysis that NSCA provides to benchmark results. Always know if your capacity is over- or under-utilized and by how much.

Focus on Profits, Not Revenue

A key component of this is keeping a watchful eye on compensation plans, specifically sales compensation plans that are not tied to profitability of the project. We still have some members who pay off of sales revenue without setting minimum marks ahead of time. Likewise, paying overtime when productivity is running below your benchmark will kill profits. Remember that the company needs to win before the employees can win.

Monitor Revenue

In a typical NSCA member company the ratio between revenue and your employees' averages about \$200k per employee. The reason this is important is that you will make better staffing and hiring decisions when this is tracked regularly. The overall health of the company can generally be tracked to the ratio of revenue-producing employees in comparison to support staff needed.

Watch Sales Expenses

Monitor and measure the ratio of proposals generated to those you actually close. Keep separate the new construction bid work from negotiated projects. Use your job costing tools to track each type of project separately in order to determine where your profits are actually generated.

Teach Employee to Think Like Owners

Keep a watchful eye on how much financial information is needed for them to behave in a fashion that you would expect of someone who holds an equity position in the company. Our findings indicate that those equipped with the financial information they need to measure their staff will lead to producing better results.

Finance management is critical to the success of your business. If you would like additional tips and strategies to better manage the financial health of your business, I urge you to attend our Business & Leadership Conference. It's specifically for owners and managers in our industry and

will give you the tools you need to run a successful business. For more information about the event, visit www.nasca.org/blc.