

To survive, your business must be profitable. And if your income doesn't meet your outgoings and commitments, you'll struggle. Your shareholders and investors will expect a profit from their investment.

Profitability

"Stiff competition meant that the company folded due to non-profitability."

Your costs can spiral out of control if you don't monitor them accurately. And if you don't code costs correctly, this can distort the price of products and services.

A quotation or price for a product or service based on a badly compiled estimate can lead to unrealistic and uncompetitive pricing.

Tips

- Make sure you have accurate and up-to-date management accounts to help you monitor how well your business is doing. Your operations can be steered in the right direction if you examine the key ratios of finance and efficiency, such as sales and operating margins and return on capital.
- Use accurate cost calculations to estimate the cost of new products and to produce quotations.
- Make sure you accurately calculate the key ratios describing the profitability of your business, review them regularly, and use them when you're making decisions about your operations. Get help from your accountant.

Liquidity

"We had plenty of work, but we ran out of money and so had to file for bankruptcy."

A good order book doesn't guarantee you'll have good liquidity. Significant fluctuations in income (and costs) can cause cash flow problems. A large customer, for example might take 90 days to pay you. Also, bad debts or a customer temporarily failing to pay on time can have a negative impact on your liquidity.

Tips

- As with profitability, monitor your liquidity with key ratios. Plan and monitor your cash flow with the help of a liquidity budget, and take into consideration the timing of holiday pay, various taxes and other statutory payments.
- If you need to, you might be able to negotiate temporary payment holidays with a bank.
- Make sure you regularly check the credit status of your customers.

Gearing

"Loans that were too large plunged the company into liquidation."

Having too large a proportion of borrowed capital, or high interest rates, reduces your ability to cope with lower profits. Significant variations in currency rates can raise the costs of unhedged foreign currency loans to an intolerable level. To keep afloat, you need to have enough shareholder equity – your business won't survive on borrowed capital alone.

Tips

- The more capital you have that's made up of shareholders' equity, the higher the gearing. High gearing means a better ability to tolerate risk and provides a good chance of surviving a financial crisis. High self-sufficiency (internally acquired funds) means less external funding and lower interest costs.
- Equity is acquired from an entrepreneur's own investment, from shareholders through an increase of share capital, and by widening the basis of ownership (new business partners). One characteristic of a healthy business is a low burden of debt.
- Make sure you have regular contact, and plan your business activities, with your accountant.
- It's worth finding out about subsidies and other sources of funding provided by government or European Union grants.

Managing finance

"During the good years, we got carried away with tempting foreign currency loans. Now we are penniless."

Poor communication with financiers or investors during good times can cause you problem when you need extra funding.

A large amount of borrowed capital or foreign currency loans weakens your ability to cope with different risks, for example lower profits.

Explore the possibility of subsidies and other financial aid – once secured, use them effectively.

Tips

- Make sure you communicate with your bank, financiers or investors in a regular basis.
- You can get information on financiers, investors and various sources of funding from trade or employers' associations, the Small Business Service and Chambers' of Commerce.

Useful links

Companies House

www.companieshouse.gov.uk

Dun and Bradstreet

www.dnb.co.uk

Small Business Advice Service

www.smallbusinessadvice.org.uk

Health and Safety Executive

www.hse.gov.uk

Association of British Insurers

www.abi.org.uk

Business Link – Health, safety, premises

www.businesslink.gov.uk/bdotg/action/layer?topicId=1073858799&r.s=tl

Confederation of British Industry

www.cbi.org.uk

British Chambers of Commerce

www.britishchambers.org.uk

Small Business Federation

www.fsb.org.uk