

HOW TO FIND OUT WHAT SMALL BUSINESSES NEED

Edited version of Chapter 4 from *Consultancy for Small Businesses* by M. Harper

Business consulting involves two tasks; diagnosis and recommendation. The one follows from the other, but it may be useful first to consider the problem of how an inexperienced advisor without lengthy specialised training can obtain a useful picture of a business, which can form the basis for subsequent recommendations and confirm the existence of any problems mentioned by the business owner. Any reader who is interested in the possibility of organising a small business advisory service should try out the procedure which is described in this chapter on a small sample of local small business people. This trial will show whether the particular business people have the type of problems which advisors who have had minimal training can help to solve, and it will also be a useful test of the relevance of the procedure itself in local circumstances.

Many of the best large scale business consultants are accountants by training and this is no coincidence. Accountants have over the years, devised ways of describing the condition of a business. These techniques may originally have been designed to show the owner of a business how his investment was faring, or to give an idea of the financial strength of the business to anyone who proposed to lend money or extend credit to it. They are now however widely used by managers within businesses, and by outside advisors as a means of giving a rapid appreciation of the condition of the enterprise. Even though a business consists essentially of people, who are making or selling physical objects, money provides an invaluable measuring device to enable us to see what the people have achieved and how they are achieving it.

The language of accountancy is specialised and complex; non-accountants are often bewildered by terms such as assets, liabilities, debtors, creditors and so on. As a result they may feel that they cannot make use of accountants' figures and it is generally recognised that only qualified accountants can produce the figures in the first place. This is not necessarily true; the same basic techniques which enable a shareholder to examine the performance of a large public corporation can be used to show a businessman the state of his business and what should be done to improve it. The figures need not be completely accurate, rough estimates can often show the situation as clearly as precise figures and if some information is totally lacking this fact also suggests that certain record-keeping procedures should be introduced in order to provide information for a thorough analysis.

The Uses of Capital

One of the most common problems of small business people is that they think they need more money but are in fact using the money that they do have in the wrong way. The first object of any diagnosis must therefore be to discover how the business owner is using his or her capital. Capital can be invested in buildings or equipment or stocks of raw material or finished stocks ready for sale. It can also be kept as money, either deposited in the bank or in the form of cash. It may in addition be lent out to customers; banks and moneylenders do this on their own but many other businesses also lend money to their customers, by allowing them to buy goods on credit. This may not appear to be a loan, but if a business person sells something to a customer today and allows him a month to pay for it, he is really lending him the money for a month.

The Sources of Capital

Once the uses of funds have been identified, it is necessary to find out where the money has come from. This information in particular may be very sketchy. The business owner should know or be able to find out what he owes to suppliers and what official loans are outstanding. His own or his family's investment in the business is less easy to determine; he may know how much he started with, but his subsequent investments or withdrawals are unlikely to have been recorded. This is not too serious a problem. The total sum of money involved in the assets of a business must have come from somewhere; that which has not been lent by suppliers in the form of trade credit or by banks, must have come from the owner's own investment or from the profits of the business which were not withdrawn. The size of this 'balancing figure' is often a valuable indication of the progress of the business.

Unless a substantial investment of money from outside has been made subsequent to the foundation of the business, it can be assumed that the majority of the amount has come from profits retained in the business. If the amount is substantial, it indicates both that the business has been successful and that the owner has exercised restraint in his withdrawals. The answers to the list of questions will therefore show the sources of money in the business or its 'liabilities' as accountants describe them.

Collecting the Information

Following this introduction you will find a set of questions which have been designed to help a consultant find out how a shopkeeper is using the capital in his business. No technical accounting terms are used, but the information is the same as that which an accountant uses to construct a balance sheet with a list of assets and liabilities, and a profit and loss account.

Before examining the details of these questions, we must be sure that small scale business people will in fact be willing to answer them. If a business owner suspects that the information will be used to assess his taxes, or to show what is worth stealing, or even in order to satisfy local curiosity, he will obviously not answer the questions, or worse still he will deliberately give false information. It is therefore most important that the advisor should be introduced, or introduce him or herself, as someone who wants to help the business. This statement in itself will not necessarily be enough to get over the initial suspicion.

The best approach is to show an immediate interest in the problems of the business itself; hence the brief introductory question which precedes the request for factual information about cash and so on in the consulting form provided. This should indicate that the information which he or she is being asked to give will only be used to help solve his own problems. The problem of initial suspicion needs careful attention. Experience has shown that the problem can be quite easily overcome and the use of young local inexperienced advisors may help to avoid fear of government or other outside 'spying'.

These questions have been used in a number of languages; the details may vary from one kind of business to another; a manufacturer for instance, will have raw materials and work in progress as well as finished stocks ready for sale. Most importantly, the language and description of what is required are simple enough to be understood by any advisor and even by an illiterate business owner.

Recommendations

Information in itself is of no value to a business owner or to consultants; it is only of value if it can be used as a basis for making recommendations which will improve the performance of the business. The absence of certain information will lead inevitably to advice on record keeping procedures which will make the information available. However, these procedures are of no value in themselves if their only direct result is to involve the business person in time consuming clerical tasks. This effort must be rewarded in terms of improvements which are achieved as a result of knowing information which was previously not available.

Some recommendations can be made without any figures at all. Consultants can be trained to watch out for physical conditions which are not conducive to profitable operation, and suggestions for better organisation of stocks, proper recording of customers' debts, general cleanliness or a brighter physical appearance of the business in order to attract more customers, are obvious but nonetheless worthwhile.

The final stage in the consultancy procedure is to make recommendations based on analysis of the figures and visual observations. The form provided here lists most of the recommendations which are appropriate for small shops. It is unlikely that the business owner will be able to adopt more than two or three new practices at a time and the secret of successful consultancy is to make suggestions which will improve the business and be within the ability of the owner.

FIRST CONSULTING FORM

VILLAGE/MARKET/TOWN _____ DATE OF 1ST SESSION _____

NAME AND ADDRESS OF BUSINESS _____

CONSULTANT _____ YEAR BUSINESS STARTED _____

TYPE OF BUSINESS _____

What is the most important problem in your business? _____

Better MANAGEMENT may help you to get over this problem; I am not giving loans, chasing debts or asking about taxes, but trying to HELP you to manage this business better with some ADVICE. I am trying to give you advice especially for your business. I do need some information from you though, before I can do this.

First, I need to know what you have in your business today and how much it is worth.

Is this building your property? If so, what is its value now?	(Y/N)	
What is the value of all the furniture and equipment you have in your business, if you had to sell it today?		
What is the value of all the goods in stock today?		
Do you give any credit at all? If so, how much is owed to you today, by all your customers, whether overdue or not? <i>(Try to add up the total from the debtors' record)</i>	(Y/N)	
Does the business have a bank account? If so, how much is in it? <i>(Try to check the bank book)</i>	(Y/N)	
Do you have any other money which can be used for the business when necessary?		
How much CASH have you got here now which belongs to the business? <i>(Try to see the actual money)</i>		
So the total amount of money or value of other things that you are using in your business today is		
		TOTAL ASSETS

Now let us try to see where this came from.

Do you get any credit from your suppliers? (Y/N) If so, how much do you owe them altogether today? (Try to check from records)	
Do your customers ever pay in advance? (Y/N) If so, how much have you got from them at the moment for goods not yet taken? (Try to check from records)	
Have you ever received loans from any source? (Y/N) If so, how much do you owe at the moment?	
How much money did you and your partners (if any) put into this business at the beginning?	
How much have you put into it since then?	
Therefore the total amount put into the business by you or 'lent' from other sources is	
The difference between this and the total value of what is in the business (see bottom of previous page) has come from profits earned by the business and not withdrawn or from losses made since it started	
The total invested in the business is (equals the total from bottom of previous page)	

Do you have any other business, e.g.?

Cash crop farming	
Restaurant	
Transport services	
Another shop	
Other (please specify)	

If so, are all the figures which you have given to me the ones for this business alone or does the cash or any other item belong to the others as well? (Correct as necessary).

We have now obtained a complete picture of the business at a particular time, or at least we have discovered what additional information is required in order to produce such a picture. We now need to obtain the 'moving picture' which shows what the business achieves over a period. We shall then be able to combine the account of what has been done with the description of the business that has done it, in order to see what changes are necessary in order for the results to be improved.

The following list of questions shows the information that needs to be obtained in order to construct the 'moving picture' of the business or the profit and loss account.

Now let us see how much profit or loss you are making each month.

What is the total value of your sales in an average month? <i>(Try to check from cash records, debtors records, guesses of a day's sales, or your observations)</i> <p style="text-align: right;">SALES TOTAL</p>	
What does it cost you to buy the goods that you sell for this amount? <i>(Check opening stock and goods bought – less closing stock, or receipts, or average gross profit on sales)</i>	
What do you yourself take out of the business in an average month in wages, salary, value of goods taken out and not paid for, gifts to relatives and so on? <i>(Check records)</i>	
Do you employ any others in this business? If so, how many? () What do you pay them in total per month?	
What rent do you pay per month?	
What do you spend on transport each month?	
What do you spend on water, electricity, wrapping materials etc., each month for the business? <i>(Be sure no expenses are forgotten)</i>	
What do you spend on loan interest and repayments each month?	
What is the MONTH LY cost of your licences? <i>(Check licence certificate)</i>	
Your total expenses per month are therefore <p style="text-align: right;">EXPENSES TOTAL</p>	
The difference between your total expenses and your sales is your profit or loss <p style="text-align: right;">TOTAL PROFIT/LOSS</p>	

Observations / Comments

LIST OF RECOMMENDATIONS

R = RECOMMENDED C = COMPLETED

RECOMMENDATIONS	Date	Date	Date	Date
Keep Cash Book				
Record debtors and advances				
Record withdrawals of cash (in cash book). Pay for goods withdrawn, if necessary by withdrawing cash and recording it.				
Count and value stock on _____ (Date)				
Tidy up premises with special attention to...				
Rearrange stock, in particular these items...				
Open Bank Account Where _____ Monthly deposit _____				
Reduce stocks by: a) Lower price Item _____ Present Stock _____ Present Price _____ Target Stock _____				
b) Stop buying Item _____ Present Stock _____ Target Stock _____				
c) Return to supplier Item _____ Present Stock _____				
d) Free gift Item _____ Present Stock _____ Basis of gifts _____				
e) Exchange with other traders Item _____ Present Stock _____				
Advertise Item _____ How _____ (Try actually to do it)				
Buy new stock Item _____ Quantity _____				
Other				