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Boost Your Business

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How A Quality System Can Improve Profitability

Quality is a difficult concept because it can mean different things to different people. The cost and practicality of a people carrier can be a quality car for the family; the affluent young driver may however, prefer the coupé.

Quality can generally be expressed as "conformance to requirements". To conform to requirements, you have to identify them, understand them and then meet them.

As a successful company you will identify and aim to meet the needs and expectations of your customers to achieve a competitive advantage.

You will also wish to meet your own needs and expectations (a wage, a profit, a healthy working environment, etc).

This can therefore mean that quality is something you are already doing.

After all, if your company remains in business and customers are happy, you must be doing something right.

The next question to ask is "Are you doing the right thing first time, on time and every time?"

If you do not always do things right or on time then you may not be as profitable as you could be and your customers may not be as happy as they might be.

Striving for a "right first time" approach does not have to be difficult.

The value of a quality management system is that you can get it right first time in an efficient and effective manner.

Deciding not to have a quality management system is easy, just carry on the way you are.

Developing a quality management system and implementing it will require resources and commitment.

An effective quality management system will also require:

- *Awareness*: a shift in the company culture, which everyone understands, and which involves everyone.
- *Leadership*: management that is personally, actively and visibly involved.

Any quality management system must of course meet your requirements. It can be developed in a bespoke manner to fit in with your company or it can follow a recognised and standard approach.

A quality management system is a collection of management tools to improve the company.

The most commonly recognised and widely implemented quality management system is the ISO 9001:2008 standard. It is recognized internationally and certification to the standard is frequently demanded by clients as a mark of quality.

The standard specifies the minimum quality management system requirements which an organisation needs to consistently provide a product or service that meets customer requirements, address customer satisfaction through he effective application of a system of processes for continual improvement and the prevention of errors.

An ISO 9001:2008 based quality management system must be documented, implemented and then, to obtain certification compliance, demonstrated by an external audit.

A documented quality management system must reflect your company, not restrict your company.

What is needed is just enough documentation to enable you to run your company effectively and that will allow you to quickly spot where things need improving. If you are serious about the quality of your products and the services, then why not show it and at the same time find improvements in your profits? Improved efficiency, reduced waste and continual improvement are the real benefits obtained from installing a quality management system.

4 Steps To Make Sure Your Clients Pay On Time

We all understand that not collecting payments on time has as a severe impact on your cashflow, but let's not forget also that you are effectively giving your clients, your debtors, interest-free credit, and this also has an impact on your cashflow and your profit.

Whatever the size of your business – start-up, sole trader, micro business, small business or SME – the remedies are the same.

Follow these four steps and you will reduce the amount of money owed to you:

- Send out the invoice as soon as you ship the goods;
- Call the client the day after you send out the invoice to check the invoice has been received and there are no issues with the goods or services supplied;
- Call the client 5 days later to carry out the same checks, so that there no excuses on that front;
- Call the client 5 days before you expect to get paid to make sure your invoice has gone into that month's payment run.

Pretty obvious really, but it is surprising how many companies are not doing that.

DSO – Days Sales Outstanding

Also known as debtor days, this is the average number of days your clients take to pay their invoices.

Let's take a business that has a turnover of £1,000 per day, typical of many small businesses with a couple of employees. If its clients owe them £75,000 then their DSO is 75 days – 75 days at £1,000 per day – that is what it means.

So the DSO for your business is just the total debt owed to you divided by your average daily sales.

What does DSO tell us?

Well, the £1,000 a day turnover company traded on 30 days terms so it could reasonably expect to get paid in 45 days – the end of the month following the month of the invoice – and it should have debtors of £45,000.

Just imagine the impact on cashflow of reducing the DSO to 45 days – a £30,000 improvement. Even a 10 day reduction in DSO would improve cashflow by £10,000 – certainly worth going for.

Effect on overdraft

One factor that is often ignored is that companies may find they have to borrow to fund the excess credit they give to their customers.

Our sample company could have an overdraft of £30,000 – essentially funding the gap between 45 days and 75 days DSO.

The cost to them of funding that gap at an interest rate of 12% would be an additional £3,600 in bank interest, not counting the bank charges that go with it.

That is an extra £3,600 cost to their business for giving their clients excess credit on interest-free terms – reducing net profit – madness really.

You could save the cost of bank interest and increase your profit by improving your DSO and reducing your borrowing.

Invoice on time

Strictly speaking DSO does not include your delay in sending out your invoices, but the impact is the same and the easiest way to eliminate that is to send the invoice out as soon as you have shipped the goods or supplied the service.

Manage your clients' payment expectations

Contacting the client at least three times between invoicing and collecting the money:

- the day after you send out the invoice to check the invoice has been received and there are no issues with the goods or services supplied;
- 5 days later to carry out the same checks, so that there no excuses on that front; and
- 5 days before you expect to get paid to make sure your invoice has gone into that month's payment run

That way your customers will get to know when you expect to get paid.

They will often delay paying their suppliers where they can get away with it to improve their own cashflow, but if you chase them – nicely – they will get to know you expect to be paid on time and they should begin to act accordingly.

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Telephone: 0333 444 8522 **Email:** info@ukba.co.uk **Web:** www.ukba.co.uk

Next month: Getting The Most From Your Team ~ How To Manage A Meeting Effectively