

Best Business Practices for Profitability

Cecily Raiborn, PhD, CPA, CMA, CFE
McCoy Endowed Chair in Accounting
Director, Texas Wine and Spirits Alliance
Texas State University

Best Practice:

- A method or technique that has been generally accepted as better than all alternatives because it produces superior results to those achieved by other means
- A method or technique that has been generally accepted as better than all alternatives because it has become a standard way of doing things (*note: standards often change over time!*)
- The use of best practices means finding and implementing ideas and strategies from inside or outside your company and industry to improve performance in any given area.
- A universal best practice is grounded in general, rather than industry-specific, terms and so are more flexible, more easily changed, and more readily adapted to a variety of business situations.
- BUT there are times when a best practice in one type of business/industry is not applicable or is inappropriate for another's needs; be sure to balance an organization's unique qualities with the practices that it has in common with others.

Best practices should help an organization to

- Reduce costs (in part by learning what others have done successfully).
- Avoid mistakes (that others have made).
- Find new ideas (by "borrowing" the best from others).
- Improve performance (by raising the performance bar and set new standards of achievement).

What is the process?

- Identify the key business process or service to improve. (Profitability)
- Choose one or more metrics to measure. (Return on sales; return on assets; conversion rate of tasting room visitors to wine club members?)
- Search out others (including competitors and those outside your industry) who have achieved success in the process; collect and analyze information on what they did.
- Modify (if possible) the best practice as necessary for your organization.
- Implement the process and measure the results.

Which practice? Profitability

- Definition: the ability to generate a *financial* profit from business operations
- HUGE PROBLEM WITH THIS "PRACTICE": It encompasses and is affected by all the other business operations!
- To be profitable, a business must
 - Understand the business, its economic and legal market, and its potential customers;
 - Design products and services desired by customers;
 - Make those products and services at a "reasonable" cost and at a corresponding level of quality;
 - Market and deliver those products and services at a "reasonable" cost and sell the products and services at a "reasonable" price; and
 - Provide customer service and interaction that creates an on-going relationship.

Assess yourself and your business.

- What are your personal strengths and weaknesses?
- What is the mission and vision of your business?
- Which legal business structure is best suited to your organization? (Talk with legal counsel and accountant!)
- From where will your business funding be obtained, when will that funding be needed, what are the costs of the funding, what repayment options are possible, what (if any) documents will those funding sources want to consider? (Strategic plan and budgets are essential.)
- What are your short- and long-term business goals and how do you plan to achieve them?

Review all potential legal and regulatory issues.

- What permits and licenses need to be obtained and from where?
- What documents will be needed to support those permits and licenses?
- What are the appropriate legal/regulatory bodies with which your business must interact?
- What laws/rules exist that must be followed in your business?
- What laws/rules have changed since last year and how will those changes affect the business?
- Are there any pending laws/rules that might affect your business and what might be the effects?

Gather a good support team.

- Who can perform well in your areas of weakness or in those you consider “chores”? (Four top advisors: attorney, CPA, banker, and others in similar business; be sure to develop sound relationships with each and communicate on a regular basis...especially **before** any major decisions are to be made!)
- Which (type?) of your employees will be full-time, part-time or outsourced?
- What information do you need to do your job, do your employees need to do their jobs, where can that knowledge be found, and how can it be disseminated to the right people? (Training is essential!)
- In addition to offering reasonable wages/salaries, how can you get your employees to “care” about the company and their jobs?
- What kind of organizational culture do you want to create? (An ethical tone at the top is a must!)
- When, why, and how often should you meet with employees to convey information (both positive and negative)?

Collect solid business intelligence on economy, market, and competitors.

- What economic indicators might have the most influence on your business?
- What market, innovation, and demographic trends will/might affect your business?
- Does your product have the level of quality to justify the price being charged?
- Who is your target audience, how will you introduce them to your product, and how will you keep them coming back?
- Which distribution methods will be used for your product and what are the pros and cons of each?
- What differentiates you from your competitors and what do you have in common?

Understand your production cycle and your costs.

- What are your product and your period costs?
- What are your variable and fixed costs?

- Where (if any) are there bottlenecks in the production cycle and how might they be corrected?
- What is your product mix? At what life-cycle stage are your products?
- What is your estimated break-even point?
- Can you afford to make “special orders” and, if so, how do you price them?
- How should additional assets acquisitions be evaluated?

Keep good records.

- What are the pros and cons of different software that can be used to track finances, compliance, employees, and clients? Which would be best for your business?
- What did you buy from whom, for what purpose, when did you buy it, and what are the payment terms?
- Who are your employees, what are you paying them, and what are their withholdings?
- What did you sell to whom, in what manner (DTC, tasting room, etc.), for how much, and how often?
- On what items must taxes be paid, to whom, and when?
- What business finance information should be reviewed, how often should it be reviewed, and what “alerts” should be established to trigger problems in your finances?

Engage in customer relationship management.

- Who are your current customers and who do you want your future customers to be?
- Which of your products do your customers purchase and why?
- How have you established a personal and emotional linkage with your customers?
- How often do your customers interact with your company and how often does your company interact with your customers and on what bases (i.e., what are the “touch points”)?
- How do you select the “correct” customers as recipients for promotions and new products?
- What is the average customer “tenure” with your company?
- How do you protect your customer information?
- How are potential new customers identified and what follow-up procedures are used?

Protect your business assets.

- Which business functions do you absolutely need to perform personally and which can be done by others?
- Which employee duties need to be separated?
- Where in your business is fraud most likely to occur?
- What type(s) of insurance are needed?
- What types of internal controls are needed?
- What cybersecurity issues are faced by your business?

Consider the future of your business.

- Are you keeping up with industry, technology, sustainability, and product changes as they impact your business and keep it from becoming outdated?
- Are you willing to collaborate with other businesses within your industry and in industries that complement yours?
- Are you engaging in meaningful actions that can help your business and industry?
- Will you know when to “walk away” and will you take the right lessons with you?
- What is(are) your expected succession plan, your emergency succession plan, and potential alternatives?

- How and why does the true value of your business differ from information provided on the balance sheet?

Enjoy!

- Is it fun to go to work?
- Do you like the people with whom you work?
- Do you have a solid work/life balance?
- Do you engage in activities that provide a “higher purpose” other than just making money?
- Are you happy managing your business day in and day out?
- Have you set realistic expectations for the business?

After all those issues to consider...what are the best practices to generate a business profit?

- **Protect** your funds, your facilities, your products, your customers, and yourself.
- **Recognize** your abilities and those of others; utilize those abilities to the fullest extent.
- **Organize** workspaces, people, and data so they can be as efficient and effective as possible.
- **Focus** on doing what you do well, motivating others, and avoiding getting side-tracked.
- **Interconnect** by clearly, concisely, and enthusiastically communicating your business and its objectives to everyone.
- **Thank** your supporters, your suppliers, your employees, and your customers for all they do to make your business successful.