bles, leaving the net profit of the practice. There may be other items that need to be shown on this document, for example interest, payable or receivable, marketing costs, depreciation, lease payments and so on.

In my opinion, it is vital to look at the P&L in conjunction with the balance sheet as looking at the P&L alone can lead to a false sense of security. While you may be looking at a healthy net profit for the month, this does not mean it is available cash for drawings; the balance sheet is more revealing and may actually demonstrate that the net worth of the business will not support drawings of the profit. The balance sheet is a quantitative statement of your company's financial condition at a specific point in time, indicating the assets, liabilities and the net worth.

SUPPLY AND DEMAND

Supply should in all cases be dictated by demand. The trick is to anticipate the demand before it happens and find the supply at the best possible price and with the best possible terms. This is easier said than done. However, like all things, experience can help.

In 1906 an Italian economist by the name of Vilfredo Pareto noticed that 80 per cent of countries' assets were owned by 20 per cent of the countries' people; this was the start of the 80:20 theory. It was developed in the mid 20th century by Dr Joseph Juran who created a rule called 'vital few and trivial many'.

In principle, 80 per cent return comes from 20 per cent of effort. In my experience this can be related to a product range and should be carefully considered when the reps call. This is not to say that instead of buying a range of 20 you buy four. The truth of the matter is that the reason you sell so many of the part is that they are part of the range of 20 and the other 16 pieces in the collection are the supporting material.

However, consider the 80:20 rule when looking to increase from 10 ranges to 12, more ranges means more cash tied up in stock and less available for you, let alone the additional time to manage the extra suppliers.

The key to managing supply and demand is not just to know your market and your customers, but also to try and anticipate how their preferences and tastes will be influenced and will change.

Connections and relationships are

Second only to shop fitting, the biggest cost that most start-up practices have to face is for their equipment

always helpful. The more people you talk to the more aware you will be of how relevant your current supply is to the current demand and how this will change in the future.

This is not just relevant to your frame range but also to most areas of your business. For example, you may currently be using one particular media type to advertise your business but consider how things are changing in the coming months and years and you may find you need to change.

One of the other effective methods to monitor demand is to monitor the key performance indicators (KPIs) of your business. Not just the obvious areas such as amount of sales, but other things that tell the story of what is going on in your business:

- Number of eye examinationss
  - Number of no Rx
  - Number of no change
  - Number of referrals
  - Number of exams dispensed
- Average order value
  - Spectacles
  - Contact lenses
- Number of MARs
- Number of contact lens fits
  - Purchases of contact lenses
  - Sign-ups on direct-debit schemes.

Another crucial factor is to monitor outside influences on your business. It is amazing how easy it is to forget what happened this time last year – was there an event in your location that affected your business on that day, be it weather, world news or even roadworks? Keep a diary so that in subsequent years you will remember the reasons behind the numbers. All of these will help you build up a picture of how your business is trading and will help to guide you to success and avoid failure.

BUSINESS BANKING

A good relationship with your bank is one of the keys to your business's future and, like many things, the first steps are the most critical.

Choosing what you need from your bank in terms of support and how much input you want them to have must be decided on an individual basis. However, it is not a good idea to apply for bank accounts without knowing the level of involvement they will require.

Plan and ask about as many things as you can; pay particular attention to charges, limitations, interest and the important small print.

Your accountant will be able to advise you on the various accounts that you should have and these will depend on the legal status of your company (sole trader, partnership or limited), your credit rating, the amount of cash flow you have and need and your need for direct debit/standing order payments (both in and out).

Some of the accounts available include:

- *Current account* – for day-to-day transactions and payments in and out. The best would be one that pays interest when the account is in credit; however this is not offered by all banks to all business customers, so ensure you shop around
- *Demand deposit account* – for monies that are not required on a day-to-day basis but can be transferred to a current account if and when needed at short notice
- *Term deposit account* – for amounts that are not required on a day-to-day basis and are unlikely to be required at short notice. This account should clearly be returning a ▶