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How regular accounts analysis helped a client increase prices without loss of customers – in my own words

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Dickson is a Chartered Accountant (ACCA). For over 8 years he has worked with clients in Uganda, The Bahamas and the United Kingdom helping them in the areas of audit, accounts, tax and advisory. He is a principal at Inachee.

Research into several Small and Medium Sized Enterprises (SMEs) worldwide shows that one of the reasons they fail (in Uganda this failure rate is about 50%) is because of poor record keeping and accounts.

Despite Uganda being one of the leading entrepreneurial nations, we do not seem to appreciate how critical it is to maintain records.

I believe for any business, not having an accountant, particularly an experienced one is similar to refusing to see a doctor and opting to treat yourself using home based remedies and other concoctions despite knowing full well you are neither an expert in medicine nor an expert in such concoctions.

I don't believe anyone should go into business without having a qualified accountant assist them. It should not stop there; having regular accounting records is the lifeline of any business that is serious about success.

I set out below how I helped one of my clients who has embraced regular book keeping.

Case study.

The problem

An emerging telecommunications company was having some difficulties.

They were pioneers in their industry. Sales were growing every year by an average of 25% per year, their costs were fairly fixed and they were basically providing cash rather than credit based services. They therefore seemed to be succeeding where others had shut down years earlier. Nevertheless they continued to be making losses and was considering leaving the industry. What was the problem?

The solution

In summary, the company was under charging clients for calls to a major destination and these calls had a really small profit margin (sales price minus cost price), any small change in the forex rate of the dollar to shilling was therefore making the company incur a loss despite the overall sales themselves being very high.

The company as a result of my analysis, decided to change its strategy. It significantly increased the price of calls to this destination but in return, offered its loyal customers a discount to call other destinations where the company had a higher profit margin.

How I achieved the solution.

Working with them, I analysed their weekly and month by month sales records and was able to identify that over 50% of their sales came from calls to a particular Eastern Africa destination. This was not new to them of course. I however went further in the analysis. I decided to review their accounting records to analyse what it cost them to provide services to this destination. I noted from my analysis that whereas this destination had the highest sales overall, the profit margin was one of the smallest of all their call destinations. By profit margin I mean the sales price minus the cost price.

I further noted that the sales price being charged to the customers calling this country was not factoring in the significant exchange losses that were incurred in purchase of the company's main cost; digital airtime which was purchased in USD. Sales to customers were in Uganda Shillings.

The company as a result of my analysis, and working with my guidance decided to change its strategy. It significantly increased the price of calls to this destination but in return, offered its loyal customers a discount to call other destinations where the company had a higher profit margin.

The strategy worked and despite initial fears that clients would leave (the sector has a lot of competition), this did not happen.

The company also decided to diversify their services so as to reduce dependency on this one destination.

The client was very grateful for the initial advice I gave them to keep detailed records on their sales as without this information, I would not have been able to analyse the underpricing problem.

Furthermore the benefits of regular management reporting (they do it weekly) has enabled them to analyse customer trends and to respond accordingly.

Applying the solution to any other client situation

At Inachee we appreciate that you might not even have the knowledge of accounts or bookkeeping so as to maintain your own records just like this client. We also know that as you usually have few staff members, you are usually busy taking care of most aspects of the company right from marketing and purchases of items to Human Resource.

Furthermore as your business is only growing, you probably do not have sufficient funds to pay for an audit or accounts all at once at the end of the year.

We still want to help you.

- 1) We can provide you with a weekly, monthly or even bookkeeping service. By this we mean we shall come to you, take your raw records and input them into a format that is useful for gaining meaningful information. We shall analyse this information to provide you with useful information such as your monthly profit.
- 2) As part of that visit, we shall check that your control systems are working well. By controls we mean for example, are your bank accounts being reconciled? Are your stock items being regularly counted, Are your debtors being regularly followed up on the basis of age?

Providing you with this kind of support will give you assurance that first of all the numbers are accurate but that secondly that the controls surrounding the provision of the numbers is also working okay.

Otherwise best of luck as you start or expand and of course, if you need some help, speak to us and let's get the ball rolling, Inachee after all represents Home Grown Energy in Motion.

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