

Back Office in Full View

In most businesses and corporations the operation dedicated to running the company is called the Administrative function; sometimes known as the *back office* function. The term *back office* originated from early building layouts where the front office was where sales and other customer-facing personnel were located, while the activities such as manufacturing, development and administration were relegated to the back of the office, out of sight of prospects and customers. While the location may be unseen by your customers, the impact of the performance of this function is instrumental in the success of any size company.

Administration from Scratch

In the current economical environment we see many business organizations ranging from start-ups to divestitures, mergers and acquisitions. All of which will require a long hard look at their back office operations. If you find yourself in the process of setting up a new business, or your business is being carved out of a larger business, you might wonder what you need to get going from an administrative standpoint. Here is a list of necessities for creating your back office function.

Bank Account – you will need to have a separate bank account so that you can pay vendors and receive payments from customers. Talk to your local bank about setting up a commercial account. There are many add-on options available such as a company credit card or purchase card, check scanners on site so that you do not need to bring customer checks to the bank, and programs that allow you to process your customer payment on their credit card.

Working capital – most companies have 30 day payment terms with their customers (but not all pay on time) and today, many customers are asking for 45 or 60 days to pay. This creates a cash imbalance, since you need to pay payroll weekly or bi-weekly, your rent on the first of every month, and unless you are lucky enough to negotiate extended payment terms most of your vendors will require payment in 30 days. The way to manage your way through cash shortfalls such as this is to either invest more of your own cash into the business, obtain a working capital revolving line of credit. Again, your local bank would be more than happy to provide you with this type of loan. Keep in mind that they will require collateral – generally your receivables and inventory, and in some cases they may accept a personal guarantee from the owner.

Accounting System – you will need to have an accounting system to keep track of your activities. For smaller businesses or start-ups, Quick Books is a fantastic product and fairly robust for the price (approximately \$200 or you can pay for the online version on a monthly basis). Quickbooks can cover everything from inventory to payroll to your day to day accounting. Another alternative for smaller companies that works well is Peachtree Accounting. For small to medium sized existing businesses, Microsoft Dynamics GP, ACCPAC, and Sage are good options. You can also outsource some functions such as payroll, but keep in mind that you still need to provide hours to the outside party to generate the pay checks.

Financial Management The Administrative Function



Reporting – you will need to know how the business is performing. At month end, you will want to have a fairly detailed income statement so that you can understand what happened during the month. Having a budget to compare against is vital – it allows you to compare what you thought was going to happen to what actually happened, allowing you to make adjustments to get back on track. You also need to have a good handle on operations – how many widgets did I sell? What was my labor cost per item? Lastly, you need to have a good cash forecasting process so that you can manage your cash out based on your cash coming in.

Staffing – you will likely need a bookkeeper to manage the day to day activity. In many cases, this individual doubles as the office manager and in some cases the human resources manager as well. As you grow, you will need to determine your needs and staff up accordingly. You can even outsource some of this work to your local CPA.

Plan - before moving forward on any of these items, you need to clearly define what you need, and create a plan. Acquiring the right accounting system will not work if you do not have the right individual running it. Generating the right management report is useless unless you can understand it and use it to make decisions. As you grow, requirements will change – sometimes rapidly. You need to continually plan and stay on top of your back office to keep your business humming along.

As with any business function, whether it is front office or back office, the processes should be reviewed regularly to make sure your company is running at optimal performance and maximum efficiency.

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