**Put It to Good Use**

You should now have a better understanding of financial information and its importance. Next, let’s look at some of the ways that financial information is put to use.

**Business decision-making**

Knowing how to keep a business running smoothly is the most important use of financial information. Businesses rely on it when making decisions and figuring out their current and future actions. Here are a few examples of how financial information aids in decision-making:

***Reducing expenses*.** Businesses examine financial information to see how they are spending money and where cuts could be made. For instance, a business determines that its sales team is spending a lot of money taking clients to dinner. The business could cut costs by limiting how much salespeople can spend on client dinners.

Check out Brian Carey’s blog post “Six Ways To Reduce Your Business Expenses Right Now.” You can find it here: <http://blog.intuit.com/money/6-ways-to-reduce-your-business-expenses-right-now/>.

***Increasing sales*.** If a business wants to increase sales, it might look at its financial information to determine whether the company can afford to spend more money on promotion. A buy-one, get-one-free offer, for example, may boost sales, but the promotion makes sense only if the business can afford to give away the extra products.

***Boosting profits.*** A company’s sales may be strong, but that doesn’t necessarily mean that it’s making as much profit as the business needs. If profits are low, a business may analyze financial information to see if prices are too low or costs are too high. Once this is known, the business may decide to increase prices or look for ways to reduce costs.

For example, you’re earning money for spring break by making and selling jewelry. You’ve made a lot of sales, but because the materials you use for your jewelry are so expensive, there’s not much profit. After looking at your finances, you realize that if you start using less-expensive materials for the jewelry, you’ll make more money.

***Making purchases*.** From time to time, businesses make big purchases—buildings, equipment, vehicles, etc. Businesses use financial information to determine what they can afford as well as the best way to finance the purchase. For example, financial information may show that the company has enough available cash to purchase a new delivery van outright, instead of using credit and paying interest.

***Creating and adjusting budgets*.** It is difficult to manage a business’s finances without using a budget. Businesses look at financial information to determine how much money they have available as well as how to allocate it. Financial information can also help adjust budgets as necessary. Perhaps one department is consistently going over budget, while another department is under budget. Having this information would help modify the budget appropriately.

***Managing debt*.** Many businesses carry some debt, and that’s OK as long as they manage it properly. One type of debt may be a loan the business took out so that it could buy a piece of equipment. If the equipment enables the business to produce more and increase its profit, the business may look at its financial information and decide to use some of its extra cash to pay off the debt early.

***Planning business growth*.** Most businesses want to grow. And, growth can come in many forms—developing a new product, expanding into a new market, hiring more employees, etc. Growth should create more income for a company, but it costs money to get started. When planning its strategies, businesses use financial information to determine what they can afford and how to finance it. For example, a bike shop wants to extend its evening and weekend hours. Before this happens, the shop will have to review its finances to determine whether it can afford to pay extra wage and utility expenses that result from longer hours.

***Entering into legal agreements*.** Businesses use financial information to ensure that their legal agreements have acceptable prices and payment terms. Let’s say a business hires an IT consultant to update its network and all its computers. The business will use financial information to determine what it can pay the IT consultant and when. If these terms are acceptable to the consultant, the business and the IT consultant would sign a legal agreement outlining their agreed-upon terms. If the consultant won’t accept the terms, the business may have to negotiate further.

***Monitoring ongoing business activities and strategies*.** Businesses use updated financial information to monitor their day-to-day business activities and assess how well their strategies are working. They do so by looking at the differences between what they expected to happen and what actually happened. Let’s look at an example:

*A restaurant decided to boost its profits by increasing prices on several menu items. Two months later, profits remain about the same. The financial information reveals that sales have dropped slightly since the price increases. This is not what was expected to happen! After studying the differences between projected and actual profit, the business recognizes that, in the long run, increasing prices will hurt its profits. The restaurant decides to lower prices and look for ways to reduce costs instead.*

***Checking up on the competition*.** Businesses don’t just look at their own financial information. They also examine competitors’ financial information to determine how well their companies are performing in comparison to their competition. They may also analyze another company’s financial information to see if the business is worth **acquiring** (buying).

**Summary**

Financial information is important for use in business decision-making. Businesses use financial data to decide how to reduce expenses, increase sales, boost profits, etc.