

Financial Finesse Series It's All in the Numbers

If you've ever stared blankly at an income statement thinking, *I don't care what it says, I know my business*, you are not alone. Or maybe you've mentally run through the long list of better-things-I-could-be-doing as a conscientious accountant tried to explain your financial position to you? Rest assured, you've got company there too.

There is a raft of reasons why women business owners do not flock eagerly to the shrine of Financial Understanding & Management. One may be the traditional aversion many of us seem to have developed to all things 'math'. If you never really embraced your inner accountant, the whole numbers thing can be a little intimidating. But even if you were a whiz at calculus and trigonometry, there are more than a few financial gurus with a knack for causing heads to spin in a matter of mere minutes.

The secret to financial understanding is developing a set of personal reference points that bring numbers to life. After all, it's not the numbers themselves that are important, it's the drama in the business processes they represent. The challenge lies in tying your own personal experience to concepts like fixed and variable costs. *That's* when things get interesting.

Sarah Holland started Holland Advisory Services in 2002, after the birth of her first child and a subsequent lay off. As a financial advisor, Sarah's business has two areas of focus: providing financial planning to clients and writing plans for other financial advisors across North America. While the majority of her work is with other advisors, she very much enjoys talking with her own clients, educating them about financial planning.

In Sarah's words, "there are a number of ratios that an entrepreneur should be familiar with, in order to follow up on trends in their business, and measure their financial strengths and weaknesses. Additionally, there are a number of different business implications to financial areas such as liability insurance, how to invest your cash, or how to eventually transition out of your business (an area that people don't generally pay enough attention to)."

It's not about the numbers. It's about dreams and making a go of business. It's about what's working and what's not. And, it's about the personal satisfaction you feel when you understand what is going on in the big picture and when you can use the power of that knowledge to effect positive change.

There are, really, just a few very basic financial constructs that are fundamental to business functioning. If you understand these – where they come from, what influences them and how they interact with each other – you are well on your way to a successful business. It all boils down to revenues (money coming in the door), costs (money going out the door) and profits (what's left over at the end of the day). Let's take a look at costs.

Fixed costs, also sometimes known as operating costs or overhead, are made up of all those expenses that you incur simply as a result of being in business. One-time expenses like your welcome mat fall in there, as do charges that have to be paid each month whether you were to actually make a product or service or not. Things like rent, stationary, telephone. Things that are, for the most part, not impacted by what you produce and/or how much of it you're producing.

Variable costs, on the other hand, are directly tied to the creation of your product or service. Quite often, variable costs can be broken down on a per-unit basis so that, when you are considering things like pricing and profitability, you know precisely the dollar amount that must be covered. Let's say, for example, that you are a manufacturer of orange juice and that each cup of orange juice you make requires you to squeeze three oranges, all of which takes you about ten minutes. Your variable costs per cup of orange juice, then, are made up of the cost of the three oranges and the value you place on 10 minutes of your time. Clearly, you'd want to make sure that the price you charge for a cup of orange juice covers at least those costs. They are your variable costs.

In addition, though, you'd want to make sure that you priced your orange juice at a level that allows you to cover the fixed costs you incur in securing a place and the equipment to make – and to sell - your product. Juicers, for example, would have to have been acquired, along with a place to put them and a person to operate them, even if that person is you. Don't fall into the age-old small business trap of assuming that just because you provide a service yourself, as the proprietor of a business, it is worth nothing. Your time is always worth at least what it would cost for someone else to come in and do your work for you. You would do well to recognize this in your pricing long before it becomes necessary to do so.

It is the goal of most business people to sell a sufficient volume of product or service, at a price high enough to cover costs and to, ultimately, turn a profit. Profit is the pay off, in more ways than one. Not only is it the life-support of a business, it also provides concrete evidence that you are meeting a viable market need at a price that is acceptable to your customers. It shouts *I did my homework* like nothing else can.

Profit, then, is critical to business health. But doing the math alone – showing those positive numbers on the ledger - is not enough. In the end, it always comes down to timing and follow through. While paper profits have been known to make a banker's heart go pitter-patter, they do not pay the bills until that day when they actually materialize as cash in hand. Jennifer Fuller learned that lesson.

When Jennifer started her business, it was with the intention that if she was going to be working long hard hours, it should be for her own benefit. She was looking for a business with variety, challenge and creativity and she settled on the Internet technology industry, starting Atomic 55 Internet Technologies Inc. with a partner.

Jennifer discovered quickly that one of the biggest struggles in her business is collecting payment from her clients. "There have been times where the accounts receivables have been through the roof, but the clients aren't paying up. Collecting money can be challenging at times, but it's an integral part of business, so you have to stay on top of your clients and pursue them for money," says Jennifer.

Keeping track of her customers and their purchases allows Jennifer to know the worth of each client. It is important for her short and long range financial forecasting to know the average sales and the monthly value that every customer brings to the business. "Without paying attention to where, when and how the money comes in, you start to sink quickly," adds Jennifer. "We use our finances in every aspect of our business; from how we spend our advertising dollars to purchasing new equipment."

Who ever said numbers are boring? This is the stuff of survival; of growing a market and business knowledge base that will propel you and your business forward. It's the blood, sweat and tears; the joy and the pain of success on your own terms. So the next time you're looking at that income statement, see it through your own lens, not just the lens of your accountant. See it for what it means to you and to the business you are growing.

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