

Financial Finesse Series The Basis of Wise Financial Decisions

There is no question that, for most women, a business is more than just its bottom line. But, like it or not, profit is ultimately what makes the entrepreneurial world go round. Unless you have very deep pockets, if you're not turning a profit, you're not going to stay operational for very long.

Money may not be what drove you to strike out on your own, and it may not even be your number one priority but even if profit isn't what gets you out of bed in the morning, that doesn't mean it isn't vital to your long-term success. For many of us, the money side of business is almost a necessary evil. We grudgingly acknowledge its importance, and then do our best to ignore it until it becomes an issue.

Many entrepreneurs can tell you that this is not a good idea. A cash flow crunch quickly teaches you how crucial it is to understand the financial side of your enterprise. There are positive aspects to financial understanding that have nothing to do with simply staying afloat.

Deb Muirhead knows how much fun it can be running two exciting companies that provide services and products for the snow-resort industry across North America. She also knows how important it is for her, as the owner of Inter-Mtn. Testing Ltd. & Inter-Mtn. Enterprises Inc., to have a good handle on her companies' finances.

The financial information Deb collects and tracks helps in every aspect of her success. "Financial understanding has two components: bookkeeping that is involved everyday in the business and then the 'big picture' that is presented from the results of the everyday bookkeeping," says Deb. "I use the 'big picture' financial information to forecast growth potential and to plan for the future."

Many entrepreneurs dread the words 'financial understanding' even though much of the success of their business relies on it. For those who shudder at the thought of tracking numbers, Deb has some advice, "Get professional help early in the process of setting up the company. And you have to continue to educate yourself on all the financial obligations so you will know what to do when the business grows and changes."

Among the tenets of a sound and successful business:

1. Get an accountant you can trust, who understands small business; and
2. Make sure you have enough financial understanding yourself to be able to interpret and make use of what your accountant tells you.

Let's consider what's involved in selecting an accountant that is right for you. Keep in mind that, as with any profession, there are good accountants and bad ones. More importantly, though, just as every accountant has a unique personality, they each also bring a unique style and perspective to their practice. The trick is in finding one whose consulting approach is comfortable for you; and one who shares your values. At the very least, you want an accountant who can respect your goals and your approach to doing business.

Try leafing through the Yellow Pages in search of an accountant, and you'll discover that, in any fair-sized community, there are a lot of them. How in the world do you go about finding your gem of a financial advisor amidst all those names? One of the best ways is to ask another business owner. Pick one who is successful and who you think shares, at least to some extent, your philosophical approach to business. Then ask them who they use and if they're happy with the relationship.

'Relationship' is the pivotal word here. Think about it. You will be sharing very personal, very sensitive information with your accountant. It can't be just anyone. That means you may have to interview a few before you actually decide on the one you're going to commit to.

In addition to finding someone who is on the same wavelength as you, you'll also want someone who understands not only small business in general, but your own industry and operation in particular. Look for someone who has had some experience with businesses of your kind. The rest of the selection process depends largely on your preferences. What kinds of fees are you prepared to pay? How available do you want the accountant to be? How much input do you want the person to provide into the planning for and running of your business?

Remember that selecting an accountant does not abdicate you of personal responsibility for the financial well-being of your company. Your accountant is your advisor, nothing more. He or she does not run your business – and that's probably a good thing. Accountants tend to be very focused on revenues, costs and profits. They're objective, which serves a purpose, but they can't bring the insight you bring to an assessment of your books. Only you know if a marketing expenditure is worth its weight in gold because it will draw customers through your door. Where you see customers, your accountant most likely sees only a bill.

Jen Walraven knew from a young age that some day she would be a chiropractor with an independent practice. So, when Dr. Jen and her husband had the opportunity to buy a small, existing practice, she jumped at the chance to use her expertise in chiropractic healing to make a profit.

One of the first lessons Dr. Jen learned is that, no matter how many accountants you hire, you need to have at least a basic understanding of budgeting and cash flow management. "I need to be able to look at our finances and understand them. The state of our finances helps me plan marketing and whether or not we can make certain purchases, how many hours we can afford to have staff...the list goes on," says Dr. Jen.

Despite her close eye on her financials, Dr. Jen says there are always cash flow challenges that pop up, "There are so many things to keep track of, especially in the long term. We need to know if we have a slow moving product, if our expenses are increasing while our profits are slowing or even why we aren't growing at the pace of our projections. Finances form the base on which you build your business."

Clearly, understanding your company's finances will go a long way to ensuring you make good strategic and operational choices. You don't need to be a CGA. Accountants go to school and train for a long time to attain the high level of financial acumen they have. That's why you hire them. Your role in the relationship is to use your intimate understanding of your business to make efficient use of the accounting information in your decision making. That includes the analysis of your financial statements and of the key ratios that serve as measures of business health.

Will an understanding of financial ratios really help you in your business? The answer is an unequivocal 'yes'. Financial ratios can tell you any number of things including how fast your inventory is turning over; if your profit margin is reasonable given other conditions in your business environment and industry; if you're in a good position to apply for a loan or to expand; or if your wage costs appear high for your industry, your pricing, etc.

And, of course, accountants are also extremely useful for dealing with those inevitable taxes. A good accountant will help you plan with tax implications in mind so that even when you're turning major profits, your tax contributions are kept in line. That way, you can really enjoy the fruits of your labour.

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