



latest word

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Are you winging it?

So maybe you've never flown a jumbo jet but I'd bet there would be a few things you'd consider pretty important if you did. For example, it would be good to know where you are going and how much fuel you need. It would also be nice to know how much fuel you had at any given time as running out is kind of serious at 30,000 feet. You'd like to know what speed you



were going and how far you were off the ground. Maybe some warning systems if any of the engines were malfunctioning, and some sort of GPS system to know where you are.

Even driving a car, it's pretty important to know your speed, how much fuel you have, warning systems etc.

So what about your business? Is it important to know where you are, how much fuel (cash) you have and some early warning systems? Or are you winging it?

Here's the "Winging it" checklist;

- ◆ Do you know your sales in the last month and year to date?

- ◆ Do you know your cost of sales in the last month and to date?
- ◆ Do you know your gross profit (or gross margin) in the last month and year to date?
- ◆ Do you know what your overheads are in the last month and year to date?
- ◆ Do you know your net profit (or net margin) in the last month and year to date?
- ◆ Do you have a planned gross or net profit?
- ◆ Is your net profit better or worse than last month and last year?
- ◆ Do you know how much cash you have in the bank?
- ◆ Do you know how much cash is expected to move into and out of your account over the next month?

If you are not ticking many of these boxes, you are doing the equivalent of flying blindfolded and are playing roulette with your business.

Fundamentally, if you want to be profitable you must understand and focus on profitability.



As common sense as this is and sounds, many businesses struggle in this area.

Everything you do in your business should have a direct impact on the numbers, and consequently you should be able to judge the effectiveness of your actions.

Not understanding and having the numbers to hand means that you are not in control of the business and increases your chance of failure.

If you have watched any of the Dragon's Den TV programs, if the business owner doesn't have adequate knowledge of the numbers, this is usually promptly followed by the infamous "I'm out!".

So what are the key numbers?

There are three key numbers for profitability and everything you do affects one of these three numbers in one way or another.

1. **Sales** (or Revenue): The money you receive when you sell your product or service.
2. **Cost of Sales:** How much what you are selling actually costs. So the direct costs of the product or service you are providing.
3. **Overheads:** All other costs in the business such as electricity, insurance, bookkeeping fees etc



It's the simple relationship between these three numbers ($Sales - Cost\ of\ Sales = Gross\ Profit/Loss - Overheads = Net\ Profit/Loss$) which determines if you are a profitable business or not, plus many other insights. For example, reducing gross profit could indicate stock wastage or reduced performance from your employees.

Now profitability and cash are not the same thing, so just because you've been profitable, doesn't mean there is cash in your bank account. You must understand the relationship between profitability and cash in your business. More specifically, the time it takes for profitability to hit your bank account. You could be profitable but go out of business because

the money isn't in your bank account. So let's add a fourth key number and that's **Cash**.



If you have a handle on these numbers, your business is less risky plus, what we focus on has a tendency to improve, so just watching these numbers is likely to lead to more profitability.

As a business owner, the income you derive from your business is the key variable in your present and future wealth and consequently will determine what you will and will not be able to do right now and more significantly in the future.

So if you're winging it (*and be honest with yourself*) or half winging it, be aware that the quality of your dinner, when you 64+ is directly related to how well you understand and manage those four little numbers today.



Last word

Thanks for taking the time to read our "latest word"

Feedback on our newsletters is always welcome and gratefully received. joe@fwf.ie.

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framework financial:

Unit Ab1, Centrepont House, Rosemount Business Park, Blanchardstown, Dublin 15
Phone: 01 - 8829938 Fax: 01 - 8829772 Email: info@fwf.ie
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