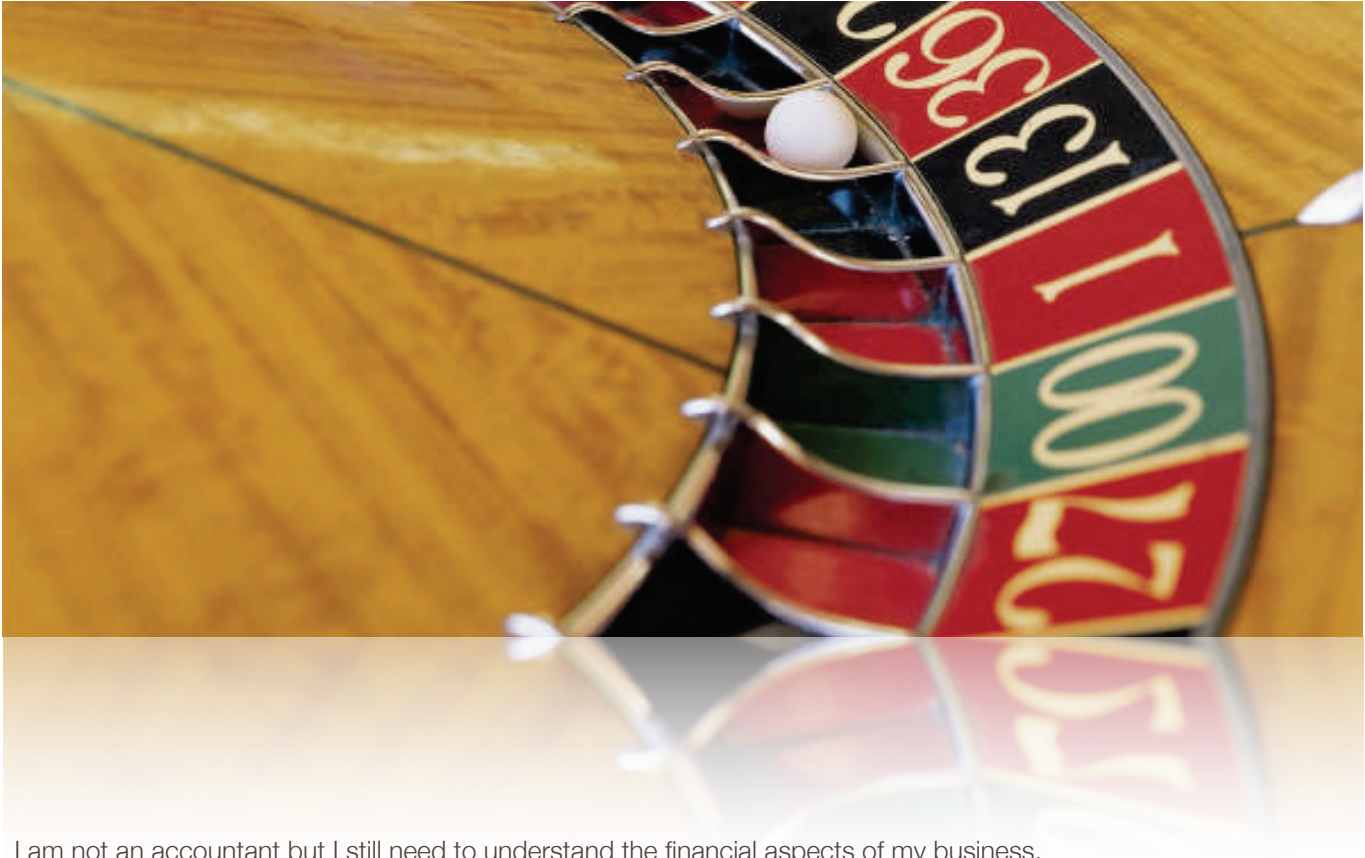

Finance



I am not an accountant but I still need to understand the financial aspects of my business. You cannot hide behind the person who “does the books”. In understanding the financial metrics within your business three areas are key:

1. Breakeven
2. Cash
3. Price

Breakeven is a moving feast, it will change with the weather. You must know your breakeven and what is impacting upon it. Reduce breakeven by improving your gross profit, this means looking at prices, the cost of your sales and the sales mix. Measure breakeven on a very regular basis.

Cash sits within your business in three areas. Debtors, Creditors and Stock - these are your net working assets. The bank is just a reservoir and the bank balance is an indication of how full or empty your reservoir is, it is not how much cash you have or an indication of your success.

You have to be careful about what we term High Creditor Strain. This is a position when you are using your creditors, often HMRC as a temporary loan. If they come calling, can you pay? Make sure your debtors aren't using your money in the same way.

When times are not so good and sales are falling, the immediate instinct is to reduce prices to generate more sales. This is not always effective which is often due to the quite massive increase in sales required just to stand still.

For example, if you make a Gross Margin of 20% and you reduce your prices by 4%, your sales must increase by 25%. Frightening.

Your tasks:

- 1 Calculate your breakeven
- 2 Manage your cash daily
- 3 Review your stock / work in progress position
- 4 Asses the impact of raising your prices