

The Numbers Game

The Numbers Game: It can be fun understanding your company's financials

As important as the numbers are, it always amazes me that so many business owners do not understand the financial picture of their company. As a result, they make decisions in a vacuum that often lead to the downfall of their business and certainly make it very difficult to get funding.

Trying to learn or get a better understanding of something can be overwhelming and when overwhelmed, most of us tend to avoid the task or even walk away altogether. As the founder of your company and its leader, walking away is not an option. To improve your financial acumen and make that task less daunting, make a game out of it. As unlikely as it seems, it might even be fun, once you get the hang of it.

Start with the fundamentals and identify what you do not understand. Whenever you travel to a foreign place it is easier and less scary if you have to understand the language and the culture. Finances certainly seem foreign to some so take the time to understand the basics. If necessary, create a cheat sheet for yourself; a glossary of terms, a diagram of how reports work together and important payment dates and amounts. Make it relatable to your situation and user friendly. In the past, I have made charts and lists, using different colors to symbolize different key financial aspects of my business. Tape it to your wall to be reminded of critical information.

Once you have the lingo, focus on the cash. Do you know what is in your bank account? I know not everyone balances their checkbook but with the current technology, there is no excuse to not know the answer to this question at all times. To get started, meet with your banker to set up online banking and

determine which daily and weekly cash related reports you want to automatically receive. It is pretty difficult to ignore if it comes directly to your inbox!

Getting a report or checking a balance is only step one in your understanding. Next you need to figure out where the money is coming from and from whom. Initially, I would suggest checking your account daily to get a sense of the patterns of payments. Make it a contest and try to guess what the cash balance will be and tally up how close you come to the actual ending balance.

Just as money comes in, so does money go out. Play detective, learn everything about your vendors and the payables: what they are owed; what are the payment terms and how important they are to your business. Establish a priority system of your vendors. Getting a weekly payables report can give you a good overview. Make sure it looks out at least 180 days.

Now that you have a handle on the basic facts of money in and money out, create a cash flow analysis and track the burn rate. Simply put, this tells you if on any day, you have sufficient funds to pay the bills you need to pay. Of course, there will always be unknowns, those unexpected bills that crop up; however, if you do not know how much money you have, how do you know how much to save? The cash flow projection should be on a rolling basis and look out at least 6 months. Once you know the actual amount, modify your cash flow. This gives you an accurate report and also historical information for future planning. Review the cash flow weekly and initially be involved in the decision making of who gets paid and how much.

Another fun (and necessary) tool is a budget. A budget is never accurate and that is why you track budget to actual. The differences give you information and insight into your business. Play the game as you make decisions to see how close you and team were in setting up the budget and actually

meeting or exceeding the budget.

Once you know how much cash you have on any given day and how much cash you will need the next day, you can create a plan to increase revenue and manage expenses. Experiment with different ways to modify the numbers. Keep mind, the goal is to have excess cash so you can plan for your next adventure.

If you do not have cash on hand you cannot pay bills, compensate your team or fuel company growth. It is never fun to not have enough cash so find a way to enjoy knowing your numbers.