

# Getting your arms around your numbers – and your business

**W**hen my son went away to college, he said he learned a valuable lesson being on his own. He said, “Although money isn’t the most important thing in life, making sure you have enough is really important.”



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**FOCUS**  
BUSINESS SOLUTIONS  
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**3. The No. 1 strategy.** I spoke to a small business owner once who told me he wanted to focus on strategy. I looked at his financial statements and the business was losing money. My response was “right now, there is only one strategy – your business has to be profitable and generate cash flow. After that is fixed, we can talk about different strategies.”

**4. Know your numbers.** How much profit did your business make yesterday? How about today? How much will you make tomorrow, next week, next month? In today’s business world, all of your successful competitors can answer these questions. You must be able to as well. Too often business owners reach for last year’s tax return or an old financial statement to gauge how they are doing. That’s not the right place to be looking.

**5. Find the key drivers in your business and focus on them.** Every business is similar in that there are three or four things that when they happen, the result is positive. Figure out what they are, track them, aggressively manage them, and watch what happens.

We all know times are tough these days. Many businesses are struggling. The news is discouraging. People are worried.

The key to success can often circle back to focusing on the right things so your business generates positive cash flow. It is amazing how many good things start to happen when your business makes a profit and generates cash.

Here’s what we tell our clients at Focus:

**1. Focus on cash flow first.** There is a big difference between the bottom line on your income statement and your cash flow. While net income is important, cash flow is more important. How many people have said “I don’t get it; my financial statement always shows a profit, but I never have any cash?” Understand the difference – it is critical.

**2. Understand profitability.** The key in business is not sales, but profitable sales. Remember, profitability is based on more than just the direct costs. It also includes indirect costs and overhead. When all of your sales add up to a poor performance at the bottom line, something has to change.

**6. Know where cash hides.** Often it is inventory or receivables. Find out what inventory is not turning, has low margin or both. Sell it at cost or below cost if you have to. Take the cash from selling the bad stuff and buy something you can sell and make money. Then do it again and again. On receivables, get your invoices out quick and manage collections.

**7. Understand the difference between fixed costs and variable costs.** Fixed costs are the same most every month and include things like rent, office costs, fixed salaries and benefits. Variable costs change based on revenues. Minimize your fixed costs and manage your variable costs.

**8. Don’t confuse your accounting system with your operating system.** Accounting systems are great at measuring the past, but profits are made today. Operating systems don’t have to be complex, elaborate or expensive. They can be simple and still get the job done.

**9. Make sure your internal accounting is accurate.** Unreconciled accounts, sloppy bookkeeping, and a confusing chart of accounts – all of these lead to bad financial information. Bad information is usually worse than no information. And while you are at it, fix your internal processes. There is no sense in making the same mistakes over and over.

**10. Over communicate.** With your banker, your CPA, your insurance agents and your attorney. They are experts in these areas and your business partners. Don’t keep them in the dark.

There are only three places to get cash: from an equity investor, from your bank, and from the business being profitable. Investors can be challenging and complex and many business owners either don’t want, or will never be able to find the right investor for their business. So set that option aside for now. What is left? Just the banks and your business.

Instead of going to a bank with your hand out, make your business profitable and ensure you can generate positive cash flow. Then go to your bank and tell them what you need. Too often, it is approached the opposite way. The business doesn’t generate a profit or sufficient cash flow so they want the bank to give them funding to operate.

The days of banks loaning money to businesses that can’t make a profit and generate cash flow are long gone.

Dig in, run your business the right way and get people around you who can help you do it. These are the keys to true long-term success!

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