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A bit of foreplay?

If Financial Ignorance = Bliss, you'll be Blissfully Broke... Finance expert Rhondalynn Korolak explains how you can achieve profitable growth in your business.

Imagine for a moment that you are playing an important game of tennis. It's the club final and you are the favorite. There is a big crowd and as the game progresses, everything seems to be going to plan. You're playing well and you're winning points. Victory can't be far away. There is only one problem: there is no scoreboard and the umpire is keeping the score to herself. No one except her knows what's really going on.

Nevertheless, you plough on and despite being in the dark about the score, you feel positive that eventually she will declare you the winner. You are so confident that you can't help but relax just a little. You start enjoying the party-like atmosphere.

Then out of the blue, the umpire declares that it is match point ... to your opponent! You can't believe it. You go back to the baseline and set yourself up for this big point. But it's too late to get your mind back into gear and you hit the return wide. The game is over; the final is lost. If only you'd been able to track the score during the game. You would have been able to fight back earlier.

Are you playing 'scoreboard-less' tennis?

Every day, hundreds of businesses operate as though they are playing a game of scoreboard-less tennis. Every month the owner runs on feelings - no more than a guess about how well the business is travelling. A day or two after month end, she will look to the 'umpire' (her accountant), who will give her the 'score' (her financials). And most times, her perceptions will prove inaccurate and it is far too late to do anything about it. When

things changed - when her 'opponent' started to get on top - she simply didn't see it coming.

Your financials are to your business what the scoreboard is at a sporting contest. Can you honestly say that you know where you are and where you are going? Do you often look at your financials and wonder what they mean? Do you waste money and time chasing new leads and sales instead of fixing your business and making it profitable?

Does your business show you love?

If you are like most business owners, you went into business because you are good at what you do - graphic design, hospitality, construction, farming, retailing - and you wanted the autonomy and financial freedom of owning your own business. You were probably thinking, "as long as I am good at what I do, how hard can it be to make a decent living and support my family?" And you have probably discovered that it is harder than you thought.

You may be one of the 95% of business owners who discover that although they work like dogs every day, they have little to show for it. You may be one of the many who find themselves isolated because they don't feel there is anyone to discuss or share their greatest fears and challenges with.

You may be feeling overwhelmed right now by any number of issues: Your workload, a shortage of customers, supplier issues, customer service challenges, the fact that there never seems to be enough time to plan ahead, to budget or review your progress. Or you may simply be wondering why you never seem to have any extra

money, even though your accountant says that you are making a profit.

Which leads me to one area I'm guessing is definitely harder to grasp than you thought it would be: the management of money.

Could your financials use a bit of foreplay?

When is the last time you took two hours out of your week to print and look at your financial statements? If you are like most business owners, you never dreamed that the ability to understand how money works would be very important. You thought, "that's for the accountant to worry about. Sure, the accountant shows me a few reports from time to time, but I don't see the need to *really* understand what they mean. If there was a problem, she would tell me, wouldn't she?"

You probably don't realise that all those numbers - the financial DNA of your business - can tell you a lot more than you thought. They can tell you why you're suddenly struggling to pay the bills, why your business is not performing as well as you thought and why you'll have to forego your salary - again - because there isn't enough cash.

The financials are the story of your business. Numbers don't lie. They are one of the few objective indicators of how your business is performing and WHY. Regardless of any justifications you use to explain why your business is not performing - the economic downturn, the shortage of 'good' staff, the competition both online and offline, rising rent and taxes - the numbers tell the truth and can lead you to the solution. You just need to learn HOW to use them to your advantage.

The BEST way to achieve profitable growth

You cannot achieve profitable growth in your business without first establishing that you are in fact profitable. Establishing profitability is job #1. If you are not in fact profitable, chasing more customers and closing more sales is the worst thing you can do in your business. It's a bit like spending 100% of your time practicing your serve while neglecting to watch the scoreboard and practice your return shots.

Break-even is one of the most simple and powerful calculations that you can use to measure and enhance your profitability. A company is said to "break-even" for a period (usually a month) when its sales revenue catches up to all of its costs. Specifically, accountants talk about break-even as the point where 'fixed costs' (rent, salaries, utilities etc.) are matched by 'gross profit margin' (total sales revenue minus cost of goods sold). It is essentially the point during the month when you stop paying everyone else in the business and start paying yourself (in the form of profit).

(like gross profit margin and fixed costs) are moving targets – because your business is fluid in nature, your key performance indicators are changing all the time, which means that your breakeven target will be slightly different each month. Understanding these subtle differences is crucial to you being able to take effective and appropriate action when you and your team fall behind your monthly targets.

2. It is imperative to break the monthly breakeven target down into bite size pieces that can be understood by everyone and measured regularly - i.e. how much in sales must be generated per hour (or per salesperson) each day? The breakeven target is only useful if you can track and measure it each day. The bottom line is this, what gets measured in your business, gets improved.
3. If you are behind target at a given point during the month, resist the urge to spend money on mass advertising or

marketing tactics (like email) are often very effective and inexpensive. Aim to up sell complementary products, value add (resources, checklists or training) or introduce additional products that have a high gross margin and make it easier for you and your team to increase sales and the bottom line. Ask yourself "what can we do to enhance the customer experience and add value so that price is no longer a determining factor in the purchase decision?"

4. Post the breakeven targets where all team members can view them and demonstrate that you are serious about measuring and reporting on profitability. Monitor progress every day toward the checkpoint, celebrate/reward the successes openly and follow-up quickly on any shortcomings or discrepancies. This will eliminate unwanted surprises at the end of each month and allow your team the opportunity to step up, meet and exceed your expectations.
5. It is simply not enough to [just] breakeven and cover costs each month unless you are a not-for-profit business. If you are a commercial enterprise, you also need to set and strive for a breakeven plus profit target each month. To determine what your breakeven plus profit target is for a particular month, simply add your desired profit to the fixed costs for the month and then divide that total by your gross profit margin. Then break the breakeven plus profit target down to a daily rate so that you can track it along with breakeven.

Calculating your break-even each month and more importantly knowing exactly which day of the month you break-even and cover all of your costs, will allow you to hit the sweet spot of your company and make informed, strategic decisions about how to achieve growth that is profitable for your bottom line and healthy for your bank account. And that is the best way to hit an ace in your business. **em**

Rhondalynn Korolak is a lawyer, chartered accountant, clinical hypnotherapist and Master of NLP and is an expert at business acceleration and the power of influence. She is the author of "On The Shoulders of Giants" and "Financial Foreplay".

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Achieving profitable growth in your business:

1. At a minimum, breakeven must be calculated monthly. Your critical numbers

put items on sale to increase revenue quickly. Any activity that increases fixed costs or decreases your gross profit margin will raise your breakeven target and make it more difficult to reach. Marketing costs adds to your fixed expenditures and discounting always decreases your gross profit margin. Look for strategies that allow

you to speak directly to your existing customers for very little cost – these direct

