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# Are you going to drive your business



By Rhondalynn Korolak

Rhondalynn Korolak, author of best selling book *Financial Foreplay*, provides some insight into understanding your financials and how to maintain a healthy cash flow.

When's the last time you got into your car and drove it from A to B with your eyes closed? Chances are, unless you've completely lost your mind, the answer is "NEVER"!

You would never dream of putting your (or your family's) safety at risk by relying on blind faith, would you? Everyone knows your life depends on your ability to see and interpret what the gauges on the dashboard of your vehicle are telling you.

Similarly, if you are currently in business and you cannot read and understand your financial statements, you are putting the financial health of your business and the financial security of your family at risk every day. It is as if you are driving your business completely blind and just hoping that you will be profitable at the end of the year.

But isn't this the definition of insanity?

Your financials are to your business what the dashboard is to your automobile. Financial statements tell you exactly where your business is at and can help you to predict where it is likely to be in the future.

You probably didn't realise that these numbers - the speed, direction and fuel capacity 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.

Have you ever looked at your financials and wondered what the numbers meant? Are you embarrassed to admit that you simply file your statements away each month because you can't read them? Do you waste money and time chasing new leads and sales instead of fixing what's wrong and making your business more profitable?

Let me share with you a story about one of my clients named Scott. He had an established men's clothing business in a great location where many new competitors were opening and threatening to steal market share. For these reasons and more, Scott was keen to sell.

One day, a woman walked in and said, "I think you have a great business here and I want to purchase it." She had recently received a large redundancy package and she wanted to buy her own business. After careful consideration, she determined Scott's business was perfect. Because she was cashed up, she was able to make him a generous opening offer of \$1.2m. But unfortunately, the deal fell through.

# with your eyes closed next year?

Now, I know what you're thinking... \$1.2m sounds like a pretty good offer for a retail clothing business and Scott should have taken the deal and ran. And you're right, it was a pretty fair offer in the circumstances but the deal still fell through.

When she asked to see the financial statements, Scott happily turned them over to her. She took them and let him know that she would get back to him in about a week – after she had some time to review and analyse the numbers. Scott never heard from her again.

If Scott had been able to read and understand his own financial statements, he would have known exactly why she never got back to him. Despite the fact his business looked profitable (on paper), he failed to understand that the statements clearly showed his business didn't have positive cash flow or strong financial indicators. In particular, his stock levels had grown substantially – Scott had picked up many items that just didn't sell through the way he had predicted. In fact, some of these had been on the books for more than 12 months.

If only he could have read and understood the numbers, before she approached him, he could have easily fixed the problems and prepared for a lucrative sale. He would have known that inventory is one of the great hidden costs of business.

In fact, very few business owners understand the importance of inventory control. Excess inventory ties up your cash while providing little or no benefit to sales or the bottom line. In fact it can weigh a business down and ultimately lead to bankruptcy.

Like any other investment, you should expect inventory to provide you with a financial return in a short time. Tying up cash needlessly in stock affects cash flow and negative cash flow is the number one reason that businesses go under.

Thankfully, this story has a happy ending. Scott got some help – he learned how to read his financial statements and he was able to reduce his inventory and put a plan in place for ordering just the right amount each season. He identified where the pain was in his business and this allowed him to focus his time and money on the areas that were most important to the health of his business. Ultimately, he was able to turn it around and sell it for a handsome profit in less than 12 months. By knowing what was wrong, he was able to ask better questions, make better decisions and start achieving the results he deserved.

Now, you may be asking yourself "how does this apply to YOU and your business"?

First, if you have been avoiding your numbers, what you have done up until now means nothing compared to what you are going to do about it right now. Today is the best time to stop, decide and take action to get the help you need to understand and apply the insights on the dashboard of your business – your financial statements.

While it is perfectly normal to rely on someone else to prepare your financial statements, you are responsible for the financial health of your business. This means that you owe it to yourself to learn how to unlock the insights and take action that will produce your desired results.

How much more confident would you be if you were running a successful business? What if you could double your bottom line by simply working smarter not harder? And what if you could take home more money next year without chasing new customers and spending more on advertising?

Start by setting aside at least three hours to compare the results in your statements – track which numbers seem to be moving up and down – and make notes. If you cannot understand the numbers, make an appointment to sit with your accountant or a business coach and ask them to walk through the statements with you and create a dashboard of key performance indicators that you can track and measure.

Ask lots of questions. There is no such thing as a stupid question. Isn't it better to know there is a problem now, rather than after the year end when it is too late to fix?

Knowing where the financial pain is in your business will allow you to focus your time and resources where they will make the greatest impact on your bottom line. It's the most effective way to start working ON not just IN your business. You'll be amazed how much more confident you feel when you are operating a business that runs like a Ferrari (not a 1970 Ford Pinto) because you've stopped trying to drive it with your eyes closed?

**Rhondalynn 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*. Visit [www.imagineengineeringunlimited.com](http://www.imagineengineeringunlimited.com) for more information. ■**