Support, supervision and professional development

Q3 2010

COACHING insights

Bouncing BACK

Your guide to building resilience

Coaching CULTURE

Implement one in your organisation

Rhondalynn KOROLAK

"It's all about cash flow"

Meet the ANZI Coaching Coach of the Year and Coaching Business of the Year

www.anzicoaching.com

It's all about cash flow

It has often been said that "profit is pointless and cash flow is king", but do you know why? For anyone in business or coaching a business, Rhondalynn Korolak explains the importance of cash flow and outlines the common mistakes a business makes in their finances.

It is possible for a business to show a profit for a period of time, yet have negative cash flow. In fact, businesses that have profit (on paper) go into liquidation every single day. Negative cash flow, if sustained for an extended period of time, will eventually cause the company to run out of money and cease operations. Therefore, knowing the cash flow position is critical to staying afloat and knowing how to unlock more cash flow is imperative to effectively coach a business owner or senior executive.

Are you chasing the wrong target?

You can have the most brilliant product or service but if the business runs out of cash, it won't matter. Most businesses make the fatal mistake of thinking that they simply need more customers. If only they had more customers, they would have more sales and more profit…and they would be more successful.

But is this true? Can businesses simply advertise their way into more sales and better results? No. In fact, advertising and discounting often have a negative impact on the bottom line and cash flow. Simply put – the initial instinct most coaches and business owners have is to focus on increasing sales. Employing this strategy – chasing customers and sales – is often the worst thing you can do for the business.

The common assumption is that if you are running a business where the price you charge for your products is greater than what they cost, everything will be okay: you will be profitable and successful. Profit is good - don't get me wrong - but it is simply not enough on its own. To be sustainable, the business must also have a healthy cash flow.

If you are like most coaches and business owners, you never dreamed that the ability to understand how money flows in and out would be incredibly important. You thought: "that's for the accountant or finance department to worry about. Sure, they may show me a few reports from time to time, but I don't see the need to *really* understand what the numbers mean. If there was a problem, they would tell me, wouldn't they?"

You probably didn't realise that all those numbers - the financial DNA of the business - can tell you a lot more than you thought. They can tell you why the business is not growing or is struggling to meet targets. They can reveal why there is less money in the bank account {again} than there was last month.

The financial numbers ARE the story of the business. Numbers don't lie. They are one of the few objective indicators of how a business is performing and where the problems are. Ironically, financials are the most overlooked area of business coaching with the majority of practitioners choosing to specialise in leadership, sales or marketing disciplines. Unfortunately, without a solid understanding of financials, it is impossible to coach effectively and produce predictable results.

Regardless of any justifications you (or your clients) use to explain why the business is not performing - the economy, the shortage of 'good' staff, competition, supply chain issues etc. - the numbers tell the truth and can lead you to the solution. You just need to learn HOW to use them to your advantage.

Are you avoiding the numbers?

When is the last time you took two hours out of your week to analyse the financial statements of a client or your own business? Can you honestly say that you know exactly where you (or they) are and WHY? Do you sometimes wonder what the numbers are trying to tell you? Are you guilty of wasting money chasing new leads and sales instead of fixing the business and making it more profitable?

Most coaches and business owners make the mistake of assuming they can improve the business by examining the Profit and Loss and Balance Sheet on a monthly basis. Unfortunately, these statements only tell part of the story. In fact, you cannot measure the cash flow position of a business by looking at the bank balance or examining the financial statements at a specific point in time.

This is because most businesses use what's called 'accrual' accounting. Rather than recording 'money spent', they record spending as 'money spent plus money committed to be spent'. So, if stock has been purchased on account, accrual accounting includes the value of that purchase from the point it is made - not from the point when the account is paid. Accrual accounting takes into account the amount of money that has been spent plus committed to be spent in the future. The same thing happens in reverse with earnings – it includes money received plus money expected to be received. When a sale is invoiced with 30 days to pay, the value of that invoice is included in accrual earnings even though the money won't be received for at least another 30 days.

Therefore, when accountants talk of 'profit' then, they usually mean 'accrued profit' as opposed to what we would call 'real or cash profit'. Accrued profit is the expected real profit after 'spending already committed to', and 'earnings expected to be received', are taken into account along with real (cash) spending and real (cash) earnings. As a result, the profit showing on an Income (or Profit and Loss) statement is a more complicated and less useful representation of the current financial situation of a business. Net profit cannot be relied upon in isolation to gauge the financial health of a company.

Stated another way, cash flow must be tracked over a period of time and can be measured by the following calculation:

Net profit (year to date)
+/- changes in inventory
+/- changes in accounts receivable
+/- changes in accounts payable and GST and
+/- changes in fixed assets
= Cash Flow

Changes in these four items on the Balance Sheet have a significant impact on the cash flow and viability of a business. That is why getting inventory levels right, optimising receivables and payables and investing only in assets that generate a return, is critical when coaching a business of any size. In fact, a coach can often have more tangible impact and influence on a business by focusing on these four areas than on directing effort towards gaining new customers and increasing sales. And often, it costs the business very little to implement highly effective strategies in these four areas.

In practice, it is vital to have an eye on both real profit (cash flow position) as well as accrued profit. It is a common error to focus solely on accrued profit - an error which has the potential to send a business to the wall prematurely.

Rhondalynn's latest book *Financial Foreplay: Whip your business into shape & take home more cash* is available now from all good bookstores.

Are you sure it's profitable?

Profitable growth should be the goal of any business. However, you cannot achieve profitable growth without first establishing that the business is in fact profitable. Attracting more leads or closing more sales may not be enough – the costs and efficiencies in a business change every day and this means that we must constantly monitor and measure results and take appropriate action. Focusing solely on customers and sales is a bit like spending 100% of your time practicing your tennis serve while neglecting to watch the scoreboard, analyse the strategy of competitors and practice your returns.

Break-even is one of the most simple and powerful calculations that you can use yourself and with your clients each month to measure and enhance profitability. A company is said to "break-even" for a period (usually a month) when its sales revenue catches up to its costs. Specifically, accountants talk about break-even as the point where 'fixed costs' (rent, salaries, etc.) are matched by 'gross profit margin' (sales revenue minus cost of good sold).

Therefore, it follows that break-even with profit is the point in the month where the business covers all of the fixed and variable costs and starts making the desired profit target. Remember, if you and your clients are in business and not running a charity, the goal is profitable growth. In order to achieve profit, you MUST in fact plan to achieve it.

Calculating break-even (and break-even with profit) each month and knowing specifically which day of the month the business breaks-even, allows management to make informed, strategic decisions about how to achieve growth that is profitable for the bottom line and enhances the cash flow position.

Are you ready to get results?

Knowing where the financial pain is in a business will allow you to focus your time and resources where they will assist your client(s) to make the greatest impact on the bottom line. And, if you are truly serious about being a successful business coach, and it is not just a hobby or a way to pass the time, you will find a way to fit a bit of *Financial Foreplay* into your day so that you can help others to whip their businesses into shape and start taking home more cash! It's the quickest and most effective way to get your clients working ON not just IN their businesses. C

Learning Outcomes:

- Why cash flow more than profit is the key to success in business.
- How to use the numbers in financial statements to give insights that are useful to you and your clients.

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"*. Contact Rhondalynn via email **info@imagineeringunlimited.com** or visit **www.imagineeringunlimited.com**

istockphoto