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# Are you keeping score of your business?

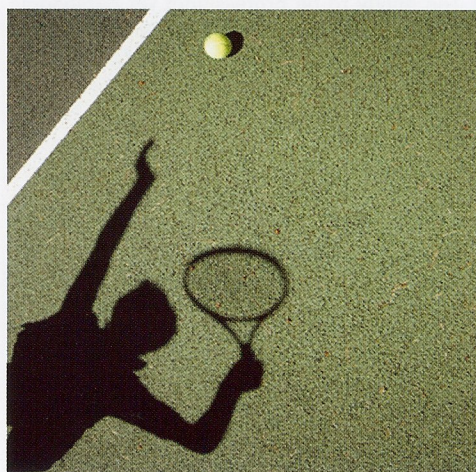
## KNOW YOUR BREAK-EVEN POINT



by Rhondalynn Korolak

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If you think financial ignorance is bliss, you'd better be prepared to be blissfully broke. Imagine playing an important game of tennis. It's the club final and you're the favourite. There's a big crowd and as the game progresses everything seems to be going to plan. You're playing well and winning points. Victory can't be far away!

But there's one problem – there's 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, feeling positive that eventually she'll declare you the winner.

Then out of the blue, the umpire announces that it's match point and your opponent has the advantage!

*Don't rely on your accountant to let you know if there's a problem. By then it could be too late.*

You can't believe it. You go back to the baseline and set yourself up for the make or break point. But it's too late to get your mind back into gear and you hit the return wide. The game is over, lost.

If only you'd been able to track the score during the game you'd have fought back earlier.

### Are you keeping score of your business?

Every day, hundreds of small businesses operate as though they're playing a game of scoreboard-less tennis. Decisions are based on feelings and guesses about how well the business is travelling.

Periodically the business owner will look to the 'umpire' – their accountant – who will give them the 'score' – their financials. And often, their perceptions will prove inaccurate and it is far too late to do anything about it.

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?

If you look at your financials and wonder what they mean or waste money and time chasing new leads and sales instead of fixing your business and making it profitable, it's time to commit to learning more about money management.

### The numbers tell a story

It's surprising how many small business owners don't realise the importance of understanding their financial position.

Don't rely on your accountant to let you know if there's a problem. By then it could be too late. And in any case, it's not the accountant who's relying on your business for their livelihood – it's you!

Getting to know the numbers or the financial DNA of your business can tell you a lot more than you think. It will help you understand 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 forgo your salary – again – because there isn't enough cash.

The financials are the story of your business, and they don't lie. They are one of the few objective indicators of how your business is performing and why.

There are many justifications you could use to explain why your business isn't performing. It doesn't matter whether your excuse is the economy, a shortage of good staff, the competition, or the high rent you pay. The numbers reveal all and can lead you to the solution. You just need to learn how to use them to your advantage.

### Know your break-even point

You can't achieve profitable growth in your business without first establishing that you are in fact profitable.

Closing more sales is not enough. It's a bit like spending 100% of your time practising your serve while neglecting your backhand.

Break-even is one of the most simple and powerful calculations you can use to measure and enhance your profitability. A business 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 (such as rent and salaries) are matched by gross profit margin (sales revenue minus the cost of goods/services sold).

Calculating your break-even each month and knowing specifically which day of the month it occurs allows you to hit the sweet spot in your business and make informed, strategic decisions about how to achieve growth that is profitable for your bottom line. And that's the best way to hit an ace in your business. ■

