

Understanding Your Financial Statements

Financial Statements. Nasty thought, right? Or at least, that's the view many business owners seem to take.

Aside from dealing with daily financial issues, many owners neglect the valuable information their financial statements provide — information that can be used to manage their businesses successfully now and optimise their future health. To understand the current state of your business and plan for the future, you need to understand what your financial statements tell you. For instance, they:

- keep an eye on your cash flow requirements and determine any financing needs
- monitor your business's financial health
- identify pitfalls and negative trends in your operations

But Why?

Those of you with small children will be familiar with this question, no doubt, but as the saying goes — from the mouths of babes.

When communicating anything to your team — be it a new process or a policy change — it's important to explain why as well.

A report released by Melcrum Publishing gave the following example:

early on so you can avoid a disaster later

- observe periodic fluctuations in wealth
- check your actual performance against your financial plan.

...monitor your business's financial health

Here's an outline of the 4 basic types of financial statements you need to be aware of, and the kind of information each gives you.

The Income Statement— also referred to as the Profit and Loss Statement. This is a report of earnings, or a statement of incomes and losses. It tells you income earned, costs and expenses incurred and net profit

"Communicators at UK retailer WH Smith launched a campaign to explain the reason behind key business messages. The campaign dictated that every piece of internal communication had to have the "Why?" stamp of approval, with the reason for the message built in to the message... Advantages of the initiative included better employee understanding about why

during the defined accounting period.

The Balance Sheet — here you'll find your company's assets, liabilities and owner equity. You can use this as a statement of your company's relative wealth or financial position.

The Position Statement— explains how your company spent and earned money.

The Statement of Changes in Owner's Equity — is used to clarify any discrepancies or changes in the amount of owner's equity from the beginning of a designated accounting period to its end.

Your financial statements are just the beginning of your financial analysis, and used properly they set off early warnings, giving you the opportunity to act well in advance of impending dangers.

certain tasks were important, as well as the reduction of unnecessary message as managers began to ask themselves why they were communicating."

The benefit of this approach then is two-fold—by clearly stating "Why?" you not only get buy-in from your team, you're making sure your message has genuine purpose.

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Spartan Management— Be Prepared To Sacrifice

Vince Lombardi, coach of the champion NFL team the Green Bay Packers is widely considered to be one of the world's greatest coaches.

He said "I think you've got to pay a price for anything that's worthwhile, and success is worth paying the price. You've got to pay the price to win, you've got to pay the price to stay on top, and you've got to pay the price to get there."

Lombardi often talked approvingly about the "Spartan" qualities of football. "When I speak of 'Spartanism,'" he explained, "I'm speaking not so much of leaving the weak to die, but I'm speaking of the Spartan quality of sacrifice, and the Spartan quality of self-denial."

Football distills and clarifies the choices that lie behind sacrifice.

As Lombardi readily admitted, it's a violent game, which has to be played violently. It makes demands on players that aren't made in any other sport. It imposes pain and injury, and fear of pain and injury.

But pain and the fear of pain is no excuse to avoid sacrifice.

When Lombardi first got to Green Bay, he found a lackadaisical attitude among the players.

After the first day of practice, he was completely discouraged. What could he do to turn this team around?

When he walked into the training room the next morning, he found it full of players getting treatment for a variety of minor ailments.

He snapped.

"Get this straight!" he barked. "When you're hurt, you have every right to be in here. You'll get the best medical treatment we can provide. We've got too much money invested in you to think otherwise. But this has to stop. You're going to have to learn how to live with small hurts and play with small hurts, if you're going to play for me. Now I don't want to see this again!"

For the most part, he didn't.

Too often, we seek to protect and shield people from the pain and frustration of mistakes and failure. We say "Don't bite off more than you can chew," and

"Be happy with what you have." What a disservice we do to these people!

Teach your people to reach for the stars. They may not come down with any, but they will come away with a whole lot more than had they not even tried.

And they'll learn a valuable lesson: without pain, turmoil, commotion, anxiety, stress and tension, there is no growth, no change. **You must pay the price!**

Here are 3 ways to think about sacrifice:

Sacrifice leads to success: It's sacrifice, during all those hours of training, that equips you to hang in there against all odds. Sacrifice and self denial lie behind every success.

Use failures as stepping stones: It hurts to fall short of a goal. However, when you use a failure to your advantage, it can become merely a stepping stone on the road to victory.

Pay the price: Greatness is worth the cost. Great achievements require courage, determination, drive and a willingness to pay the price.



Innovation distinguishes between a leader and a follower.
-Steve Jobs

Hints It's Time To Hire

Knowing when to hire is just as critical as knowing whom to hire. While small businesses can be reluctant to hire additional help, it's critical to hire help when you can no longer keep up with your business' rate of growth.

You need to hire help when:

You are unable to balance the demands of your professional life with the demands of your personal life.

You have trouble meeting deadlines.

You lack the expertise to do it (i.e. bookkeeping or advertising).

Your health is adversely affected by workload.

Your relationships are strained.

You frequently hire independent contractors to complete certain tasks.

You consistently decline work that you cannot handle.

You are preoccupied with menial tasks, such as typing and answering phones.

Do You Listen Or Do You Hear?

There are a number of traps we all fall into when it comes to being an effective listener. Do any of these sound familiar?

- Our mind wanders if we find the topic or speaker uninteresting.
- We start to evaluate the speaker, rather than their message.
- We allow distractions to interrupt us.
- We 'switch off' if the subject is unfamiliar or difficult.

- We become emotionally involved, letting our feeling for a particular word or statement distract us from the full message.

Developing good listening skills is just as important as developing the professional skills you have that make you a great business person.

Engage the 80/20 rule when dealing with your customers: listen 80% of the time, and speak only 20%. When you are actively listening to your

customers and prospects, you're learning about their needs and building a relationship.

When you are speaking, ask key questions, paraphrase what they've said to show you understand, and give 'positive strokes' in your body language, and in your words—such as "Uh huh", "Right", "I see", and so on.

Active listening can be hard work, but it is crucial to building successful relationships, and therefore in growing your business.

The customer is the most important visitor on our premises, he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.

-Mahatma Gandhi

Allow Winning Concepts To Run Their Course

There's a story of a professional body in the UK that ran a high-impact advertising campaign that was very successful. It generated a huge response, including a lot of free press coverage.

Then the campaign changed. And it literally disappeared from all notice.

The obvious question then, is "Why change something that clearly worked so well?"

They changed, not because they had tested and measured the

effects and found something better, but simply because they felt it was "time to change".

In doing that, they fell into the trap many companies fall into—change for change's sake.

Many companies indiscriminately change campaigns mid-stream. As a result, they:

- Don't allow the cumulative effect of a winning concept to work for them.
- Don't allow the dynamics of testing to work for them.

- Make a patchwork quilt of their company's image and position.

The truth is that you get tired of your own campaign long before it's done it's work out there in the marketplace.

Don't arbitrarily abandon it. Only replace an approach when you've verified and validated a more effective successor. Again, that requires measurement, management and testing.



Do You Plan For Success?

A business plan is not just a means for securing financing. It is a step-by-step guide to running your business and creating a product or service that will succeed in the marketplace. And like any other map, your plan will have to be adjusted according to your vision for the company, conditions and opportunities in the marketplace and your business' current condition.

Several things a business plan should consider are:

What is a reasonable expectation of profitability and in what time frame?

How will the business pay you and any team members?

What are the estimated expenses?

What is the pricing strategy?

What is the demand for what you are offering and what profit margin can you expect?

...your plan will have to be adjusted according to your vision for the company...

Writing down your plan will reinforce your vision, give you a reference point for checking your business' progress and will bring up factors you may not consider if you just create the plan in your head.

Writing your business plan down:

Helps you determine and coordinate all aspects of business operations

Gives you a means to analyse and determine how best to improve your business

Assists you to determine the risks and benefits associated with any changes

Decreases your chances of making a mistake or not considering important factors in your business

Increases your chances of success

Business plans aren't just for those just starting their business.

They're useful when acquiring a new business, forecasting growth, introducing a new product or service, entering a new market and responding to changes in the market.

The general who wins the battle makes many calculations in his temple before the battle is fought. The general who loses makes but few calculations beforehand.

- Sun Tzu

About Our Consulting Services

We're not your average advisory firm. Far from it.

Our membership in the Principa Alliance means you have access to the collective knowledge and expertise of an international network made up of hundreds of professionals who specialize in consulting to small and medium-sized businesses, just like yours.

When you add to that our experience, support and guidance, you can be confident you'll have all the help you need to make your business truly extraordinary.

We can and will do so much more for you than just 'keep the score'.

Our goal is to help you build a stronger, more profitable business, so you can enjoy greater financial freedom and a higher quality of life as a result.

Contact us today to discuss how we can help you build a business that delivers on its promise—to you, your team, and your customers.



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