FBZ FINANCIAL

The 6 & 7-Figure Entrepreneurs Guide to Financial Management and Numbers to SCALE

WHAT YOU'LL LEARN ABOUT:

1. Accounting and financial statements fundamentals
2. What financials statements you should review
3. Your business' hierarchy of needs for your finances
4. How to choose the right set of KPIs to measure and track to scale up your business
5. The actions to take after you read this guide

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The Numbers

OVERVIEW

“What gets measured gets managed”. - Peter Drucker

And what gets managed gets done.

Want more money, time and freedom from your business. Of course you do.

And I'm here to tell you that getting started on knowing your numbers is the perfect way to get the success you're chasing.

If you're running a 6 to 7 figure business this guide is for you.

Our goal is to help you:

- ➔ Get across your financials
- ➔ Understand the financial health of your business
- ➔ Create a solid FINANCE PILLAR that talks to the entire business
- ➔ Get on with tracking the right numbers and KPIs consistently

If you want more growth you have to be across your numbers and finances.

Because the more growth you have, the more complex managing your numbers can get.

You need a simpler approach and a few frameworks to help you.

So you don't shy away from this and you actually get to uncover the key insights and ways to improve financial performance.

It's the first step to unlock growth.

You just need to know what numbers to track and what actions are needed.

Let's give you that understanding so you can move forward with the right strategy, the key numbers to watch and a reliable **Finance Pillar** that supports you as you scale up.

“If you cannot measure it, you cannot improve it” - Lord Kelvin

So no matter what stage of business you're in, it's vital you are educated and aware about your finances. This guide is your 80/20 on what you need to know.

Let's get started....

About

NIK AHKIN

Chartered Accountant

Entrepreneur.

Investor.

After working with hundreds of business owners over the past 15 or so years, I've realised something:

"There's ways to build a valuable business - then there's what everyone else is doing".

So what we've done at FBZ is put together a method specifically designed for seven figure businesses. Helping them optimise financial performance and put in place systems and strategies to maximise your selling price in the future.

Two of the key pieces of our method is knowing your numbers and having enough access to cash and finances to fuel your growth.

This guide takes you through your financials and learning about the numbers that help you scale.

Staying on top of the financial management aspects is so key but very few businesses do this effectively, leaving them exposed to risk of failure.

With so many small businesses experiencing high failure rates with 20% failing in the first year, 30% in the second and 50% after 5 years.

It's time businesses took their numbers more seriously.

It is the difference between making it through this high risk period and being in a position to really build value on the other side and set your family up for a better future.

Your Financials

EXPLAINED

As you grow your business you will have to regularly navigate key financial decisions.

These decisions are things that smart, focused business owners get wrong all the time.

And it makes sense right…

I certainly made these mistakes while growing my accounting and business advisory firm (my first business) and I'm in the numbers game.

Especially in the first few years or so of running your business I guarantee you would have made some big financial decisions that you regretted.

The reason -- you were susceptible to letting your **emotions** make your business decisions for you.

And there is no doubt that running a business is difficult.

But those of us who are crazy enough to take this path and ambitious enough to go for it, I hope this guide makes a meaningful impact on how you look at your business.

I want to start with the basics. Because once you understand them you will be in a much better position.

Understanding the use of Numbers in your business comes down to 3 key practices:

1. Tracking The Right Numbers - Indicators around your **Growth and Progress**
2. Reviewing the Numbers with More Context - **Financial Management**
3. Using the Numbers to Make Important Decisions - Moving away from **Emotional Bias**

With the correct numbers being tracked more consistently, the next evolution is to establish a regular cadence for reviewing the numbers so you can make more informed decisions.

Most Business Owners and Entrepreneurs shy away from doing this.. Often because the reality of what is happening is something that you might not want to confront.

Let's start with the basics.

There are three (3) key pieces that make up your financial statements:

- ➔ The Balance Sheet - which gives you a statement of financial position
- ➔ Income Statement - statement of your operations and profit and loss
- ➔ Statement of Cash flows - which calculates money going in and out of your business

Let's take you through the process of what we review and in what order so you know what to look out for when measuring the financial health of your company.

Balance Sheet - The Secret Sauce

The balance sheet is a financial statement that provides an overview of your business' financial position.

You need to know your way around a balance sheet so you can manage short -term liquidity and understand how your business is funded.

It's your compass for how well your business is operating and growing at any one particular time.

It is governed by a remarkable simple equation:

"Assets = Liabilities + Owners Equity"

This equation describes the reality of how well you are doing.

The value of a company's assets will always equal what has been borrowed or invested to acquire those assets. This is where the term 'balance sheet' originates.

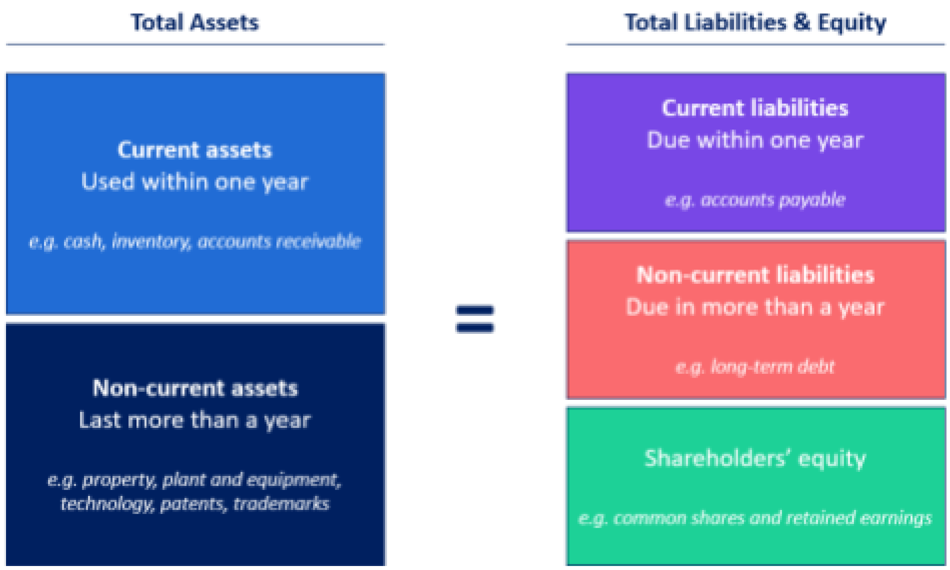
The Balance Sheet helps you manage short-term liquidity, working capital, inventory, equity ratios and broadly build out the right capital structure over-time that can pay for operations and finance your assets.

What's On It

The Balance Sheet lists your company's assets, liabilities and equity.

The things a company owns (their assets) need to be paid for by either taking on debt (liabilities), taking on investors (shareholders equity). Or (when trading from operations) re-investing any profits you earn (retained earnings).

The sections are broken down into current and noncurrent.



Assets

A company's assets are broadly defined as what a company owns. Assets can be either tangible (stuff you can feel, touch and see) or intangible (things you develop) i.e IP, technology, systems and processes. They all have a realisable value but they show up in different ways.

Assets have a positive impact on the balance sheet.

You must think of assets as what your business owns and uses to achieve its objectives. Most assets you would be familiar with include, cash, equipment and accounts receivable.

You have to know what assets you need to both acquire and build so you can work out what you have available to operate and grow your business with.

Income follows assets.

So the more assets you have on your balance sheet that produce income, the healthy your company will be.

Liabilities

A company's liabilities are defined as what your business owes to outside parties. They are obligations your business has to other organisations including loans, tax debts, suppliers etc.

A company must account for all it's liabilities so it can work out if it has the money available to pay for them.

It's what you owe to other people. This must be managed so there are no surprises.

Equity

A business's equity is the value attributed to what you own as a shareholder.

It's what's left over when all your liabilities are added up and subtracted from all the assets.

Equity is largely interchangeable and will fluctuate over time. Your goal is to increase the equity on the balance sheet by accumulating more assets that generate more cash flows that can comfortably pay for your liabilities. In financial terms, this is the viral loop of business growth.

On the balance sheet, equity is grouped into two broad categories, trading stock, and retained earnings (often merged into one profit figure). These are your profits retained within your business from previous financial periods and often used to reinvest back into your business.

BALANCE SHEET ($)	Feb 2021	Jan 2021
ASSETS		
Cash & Equivalents	-111,449	-263,334
Accounts Receivable	465,069	381,086
Other Current Assets	1,879,748	1,858,132
Total Current Assets	**2,233,368**	**1,975,885**
Fixed Assets	146,849	146,849
Investments or Other Non-Current Assets	500	0
Total Non-Current Assets	**147,349**	**146,849**
Total Assets	**2,380,717**	**2,122,733**
LIABILITIES		
Accounts Payable	180,184	200,584
Tax Liability	32,673	96,067
Other Current Liabilities	103,512	59,436
Total Current Liabilities	**316,369**	**356,088**
Long Term Debt	65,454	67,365
Total Non-Current Liabilities	**65,454**	**67,365**
Total Liabilities	**381,824**	**423,453**
EQUITY		
Retained Earnings	1,002,709	1,002,709
Current Earnings	996,180	696,566
Other Equity	4	4
Total Equity	**1,998,893**	**1,699,280**
Total Liabilities & Equity	**2,380,717**	**2,122,733**

How It's Used

Working Capital, 'Return On' ratios and your Capital Structure

The balance sheet provides information necessary to calculate the financial health and risk in a business. This is done by understanding certain financial ratios.

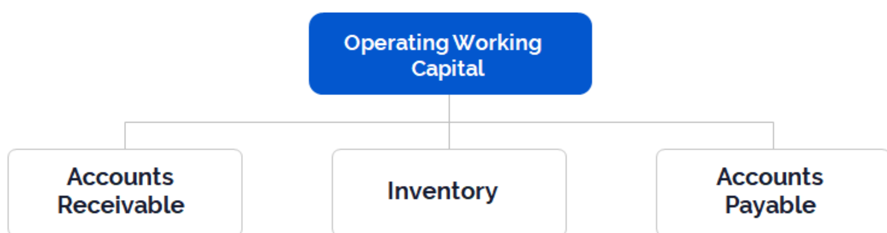
Three of the most relevant ratios to you are:

- ➔ Working capital ratios
- ➔ 'Return on' investment, asset and equity --> ratios
- ➔ Capitalisation structure

Working capital

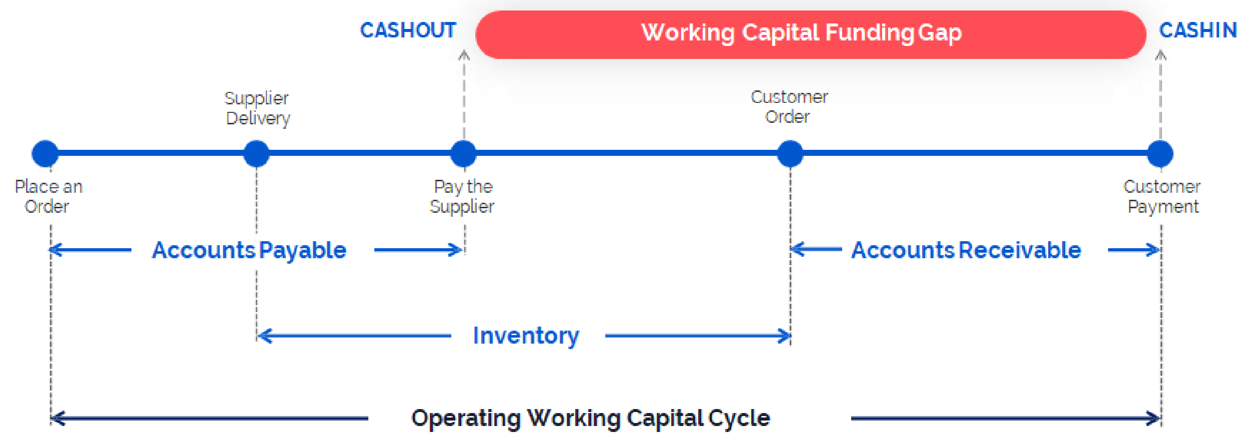
A core function of managing the financial health of your business is ensuring there is always enough cash to pay your bills on time.

Working capital is that measure to make sure your business is on the right track.



Working capital is the difference between your business' current assets, cash, accounts receivable + inventory on hand - accounts payable and current liabilities.

Working capital gaps often appear as a result of a business not having efficient ordering and payment processes and leaving trade terms with customers and suppliers unchecked.



If working capital is managed well your business will be in good shape as cash is managed by ensuring your customers pay you on time, your suppliers are happy to keep supplying and there is the right balance of stock in the business at all times to meet demand.

'Return on' ratios

'Return on' ratios are formulas that quantify and assess how well your business is generating a return on investment (money invested), assets or equity.

A simple example.

Your business invests in an asset (equipment) that costs $500K. From using that asset, (hiring it out) you generate a profit of $50k for the business.

Return on investment (ROI) = (net income / and equity investment value) x 100%.

ROI = 10%.

ROI calculations are often way more complicated than this example but the principle of the exercise has merit when it comes time for you to make important decisions about the investments you make in your business.

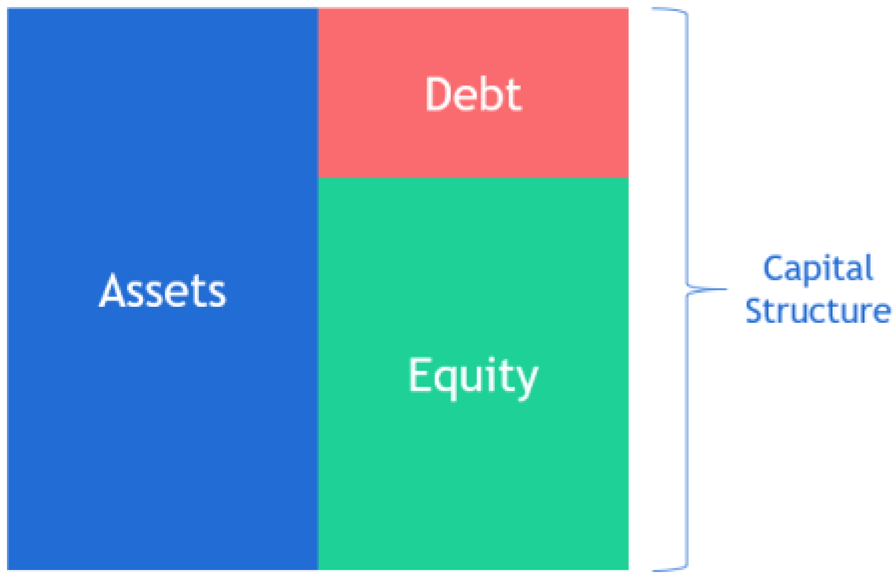
Capital Structure

This is where most Business Owners and Entrepreneurs get their financial structures confused.

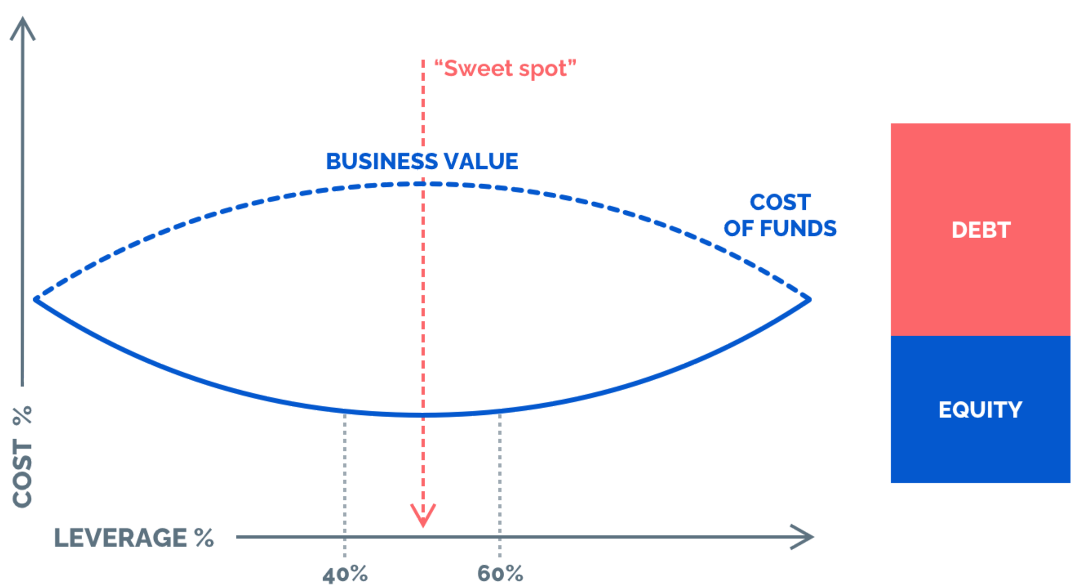
You must become attuned to the capital that is needed to grow a business. Because without capital in the form of profit and increasing equity value your business will not grow sustainably.

What is it?

Capital structure refers to the amount of debt and/or equity employed by a business to fund its operations and finance its assets. Your businesss' capital structure is typically expressed as a debt-to-equity or debt-to-capital ratio.



Getting the mix of debt and equity right is critical as there is a cost associated with bringing in any external capital. There is also an ownership, value trade-off when introducing equity investment that must be carefully considered. .

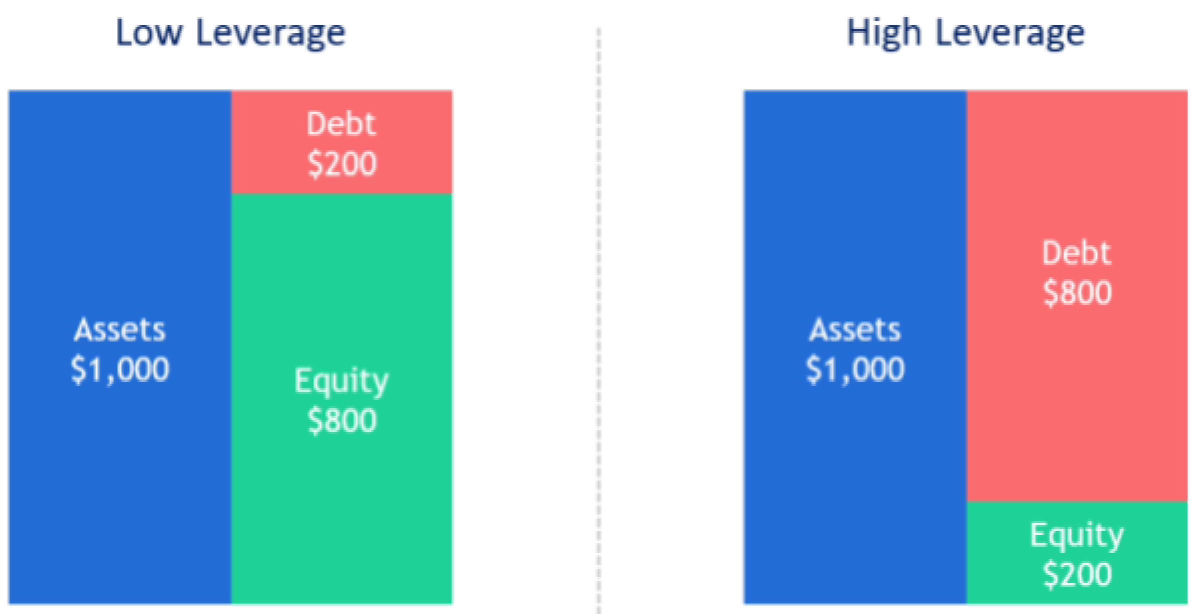


Crafting that "Sweet Spot" with your capital structure should be the goal of every company. There is no one size fits all approach here because the strategy will change depending on which industry you're in and the amount of cash you're burning as you scale.

For example cyclical industries like mining are often not suitable for debt because their cash flow profiles are unpredictable and there is too much uncertainty around their ability to repay debt.

Other industries like insurance use huge amounts of leverage because their revenues and costs are more predictable meaning their business models can handle large amounts of debt.

Are you operating a low or high leveraged business model?



In a privately held business you can choose to use debt if you reach a certain stage and the customer base and cash flow profiles are more predictable. However the risks on you as the owner with personal guarantees can be problematic if the business model fails.

Equity financing is heavily used in start-ups and early stage companies as they need to fund their operations from investors while their customer numbers are still growing and the cash flow is less predictable.

Tradeoffs between debt and equity

There are many tradeoffs that Business Owners and Entrepreneurs have to consider when determining their capital structure. Below are some to look at.

Pros and cons of equity:

- ➔ No interest payments
- ➔ No mandatory fixed payments (dividends are discretionary)
- ➔ No maturity dates (no capital repayment)
- ➔ Has ownership and control over the business
- ➔ Has voting rights (typically)
- ➔ Has a high implied cost of capital
- ➔ Expects a high rate of return (dividends and capital appreciation)
- ➔ Has last claim on the business' assets in the event of liquidation
- ➔ Provides maximum operational flexibility

Pros and cons of debt:

- ➔ Has interest payments (typically)
- ➔ Has a fixed repayment schedule
- ➔ Has first claim on the business's assets in the event of liquidation
- ➔ Requires covenants and financial performance metrics that must be met
- ➔ Contains restrictions on operational flexibility
- ➔ Has a lower cost than equity
- ➔ Expects a lower rate of return than equity

In the end there is really no such thing as the right capital structure for your business. It's more about moving to the optimal capital structure that fits the size, trading performance, and industry you're in.

Summary of the Balance Sheet

You need to know our way around a balance sheet so you can manage short -term liquidity and understand how your business is funded.

You also need to know where the balance sheet fits in relation to the other section of your financials, the income statement and statement of cash flow so we can properly manage and engage with your advisors, boards and accountants in a more meaningful way.

More focus and attention on the balance sheet can yield much better decision making around how well you manage your operations, finances and strategies around increasing your share price in the future.

The Income Statement

Knowing your numbers is a critical aspect of running a business. Your numbers come in two categories:

- ➔ Your financials
- ➔ And Key Performance Indicators (KPIs).

Regarding your financials, the next step toward growing your business is understanding where you are today.

The second tool we use to review this is your Income Statement. This helps you see how much revenue and profit you have made over a period of time.

Unlike your Balance Sheet which provides a more static view (your financial position) the Income Statement is constantly changing as you operate your business, making sales and paying expenses.

What's On It

The Income Statement displays your revenues, costs, gross profit, selling and admin expenses, other expenses and income, taxes paid and net profit in a vertical coherent way.

The Income statement is divided into time periods that logically follow your business' operations. The most common being monthly (for internal reporting) or a 13 week rolling cycle. They are then aggregated into total values for both quarterly and annual results.

Once you understand the Income Statement and financial numbers today, you can then turn your attention to how much revenue you want to generate in the future and start putting together a simple financial forecast which will allow you to see what your business will look like when you achieve your revenue and profit goals.

PROFIT & LOSS ($)	Feb 2021	Jan 2021
Revenue	578,343	144,660
Cost of Sales	229,505	161,548
Gross Profit	**348,839**	**-16,888**
Expenses	50,355	53,973
Operating Profit	**298,484**	**-70,861**
Other Income	1,226	33,666
Earnings Before Interest & Tax	**299,709**	**-37,195**
Interest Income	0	0
Interest Expenses	96	110
Earnings Before Tax	**299,613**	**-37,305**
Tax Expenses	0	2,322
Earnings After Tax	**299,613**	**-39,627**
Net Income	**299,613**	**-39,627**

Cash Flow Statement

A Cash Flow Statement shows you how much cash is generated in a given period of time.

It is the one of the main sections of your financial statements we use when modelling business growth.

There are three main categories in a cash flow statement:

- ➔ Operating activities
- ➔ Investing activities
- ➔ Financing activities

The total cash used by each of the three activities is summed to arrive at the total change in cash for the period. This amount is then added to the opening cash balance to arrive at the cash flow statement's bottom line, the **closing cash balance**.

One of the biggest issues that you will face is knowing the difference between Profit (the bottom line) and Cash.

CASH FLOW STATEMENT ($)	Feb 2021	Jan 2021
OPERATING ACTIVITIES		
Net Income	299,613	-39,627
Change in Accounts Payable	-20,400	5,650
Change in Other Current Liabilities	44,076	-143,487
Change in Tax Liability	-63,394	-3,972
Change in Accounts Receivable	-83,983	12,597
Change in Other Current Assets	-21,616	-11,089
Cash Flow from Operating Activities	**154,296**	**-179,929**
INVESTING ACTIVITIES		
Change in Fixed Assets (ex. Depn and Amort)	0	-32,034
Change in Investments or Other Non-Current Assets	-500	0
Cash Flow From Investing Activities	**-500**	**-32,034**
FINANCING ACTIVITIES		
Change in Long Term Debt	-1,911	24,458
Cash Flow From Financing Activities	**-1,911**	**24,458**
Change in Cash & Equivalents	**151,885**	**-187,505**
Cash & Equivalents, Opening Balance	-263,334	-75,828
Cash & Equivalents, Closing Balance	-111,449	-263,334

These amounts will **NEVER** be the same.

The reason for the difference between cash and profit is because the Income Statement is prepared under the accrual basis of accounting, where it matches revenues and expenses for the accounting period, even though your revenues may actually have not been physically banked or collected and some expenses may not have been paid.

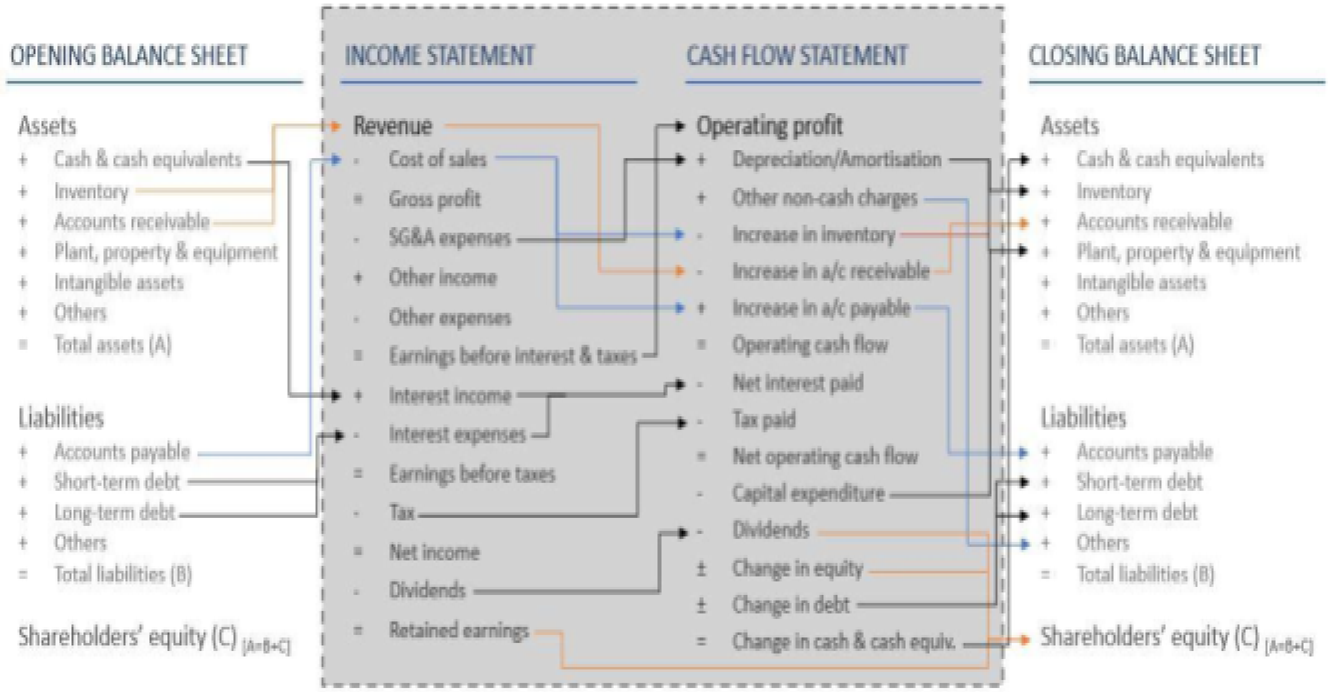
One of the primary reasons cash inflows and outflows need to be observed is to compare the cash from operations to your bottom line profitability.

It will help you gauge how well you are actually running your business, because the cash flow statement reflects the ACTUAL amount of money your business receives from its operations.

If cash generated is positive after each period your company is in good financial health.

How Your Financial Statements Interact

Here is a model of how all three pieces of your financial statements interact and how each influences the other.



This section of the guide aims to help you become more familiar with your financial statements and understand that knowing your financial position is just as important as understanding your financial performance.

Where to Start

REVIEW YOUR FINANCES

Before we start breaking down your finances we need to step back.

- ➔ Where do you want to take your business?
- ➔ Do you have the capital to get you there?
- ➔ How well are you managing the money you do have access to?

The first step we work FBZ clients through before we come up with a great growth strategy or anything is to learn where they're at. Specially what their numbers tell us about their financial position, how much cash they are burning and how profitable they are.

In order to not only stay in business, but to have the ability to grow and scale, it's vital that your financials are healthy.

This means that you are not only generating enough revenue, but you are allocating your money in the right way in relation to your expenses so that you are making a decent profit after everything is paid.

Do NOT stick your head in the sand around your financials.

They are easy to avoid but it will cost you greatly if you do (potentially costing you your whole business).

Even if you feel embarrassed about the current financial health of your business and state of your finances...here's the deal. **The only person judging you, is you.**

If you haven't been on top of your financials lately there are two critical steps you need to take.

The first is to be proactive in regard to taxes.

Taxes are one of the biggest costs of being in business. The more profitable and successful you are, the more tax you will pay. But too many business owners find themselves being 'reactive' in this area instead of having solid projections and a plan for putting away money to match those tax costs head on.

If you get behind on your taxes, it can become a difficult ditch to dig yourself out of as the ATO charges hefty interest rates on any outstanding tax you owe.

Unchecked tax liabilities have meant the end for so many businesses. Don't be one of them.

The second is to make a commitment to begin tracking your Cash Flow now.

We always want to project 30 to 90 days out from now.

This includes how much revenue is coming in over the next 30 to 90 days, expenses over the 30 to 90 days and liabilities over the next 30 to 90 days. From these numbers you can then calculate your estimated profit.

You do not need to build a perfect financial dashboard but you do need a simple way to track these numbers so you have the right insight into your major numbers and your Cash positions on an ongoing basis. Especially if you want to make better choices for your business.

The Importance of Accounting

From a Business Owners perspective accounting is quite often seen as a necessary evil to keep up with compliance, lodge your taxes, invoice, collect, pay bills and provide the occasional report to glance at the bottom line.

This is a very limited view of what accounting is.

Accounting is a tool your business can use to drive more profitability and extract more value (in the form of cash or dividends).

You should be using accounting more regularly so you can slice and dice your company's financial data as granularly as possible. Letting you view key financial metrics around:

- ➔ Sales
- ➔ Gross margins
- ➔ Operating Costs
- ➔ Profit
- ➔ Cash flow
- ➔ Top Customers
- ➔ Best product lines

A good accountant can do this by taking the relevant data and put together a series of graphs that can be viewed and updated on a regular basis.

From viewing these graphs you soon discover the business is making a bunch of money in limited areas and losing in other parts, resulting in an overall financial performance that is less than satisfactory.

When performing this exercise for our clients we often find the less profitable parts of their business are taking up most of their time and attention.

So why would you continue to hold on to these losers? For “strategic reasons” is often one excuse we hear.

But what is strategic about losing money over a long period of time? **NOTHING**.

Good accounting should guide you to make better decisions. Drop the unprofitable product lines and sell more of the products that actually give you a profitable return.

Accounting should be seen as a reality check your business needs every now and then.

That way you won’t keep leaking profits and you have the chance to change course.

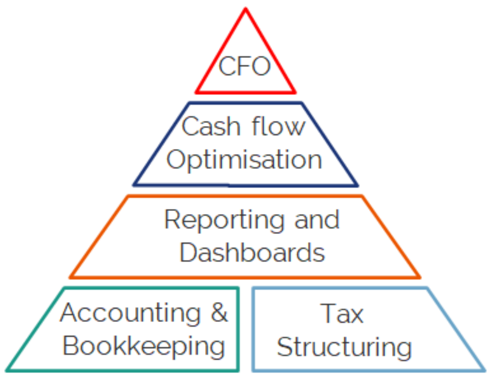
Think of the compound effect this approach will have in the future, over sticking your head in the sand and pretending everything is okay.

Laid Out

YOUR FINANCE FUNCTION

Our model below outlines the stages to arrive at the optimum finance function for your company.

As you grow and scale you will need to move up the pyramid because the depth and flow of your financials becomes more critical. This is the finance support system your business needs to have in play if you want more success.



Accounting & Bookkeeping

Accounting and Bookkeeping is the foundation to your finance function. It's the process of taking your financial data and structuring it into a format that you can interpret and analyse. Bookkeeping provides the foundation for the rest of your finance function to stand on.

Without accurate accounting and bookkeeping (data integrity) in place, the rest of the finance stack becomes superfuless.

It must be accurate and done on a timely basis with the target of closing month-end within 14 days. This will give you enough time to measure your results and make decisions from the numbers.

Tax Structuring

Every business needs to lodge and pay their taxes. It's a fact of life (unfortunately). Ensure you work with a tax accountant that knows your industry and business model so you are operating from the right corporate structure and maximising all of the tax incentives and deductions available to you.

Reporting and systems

With your data and transactions being correctly accounted for, the next step is to report on the activity of your business. With so much business and data being generated in your organisation, it's not hard to get overwhelmed with the amount and frequency the information needs to be organised.

Simplicity is key.

It is important to remember, your business data is not exclusive to your finances. In fact the more you run your business on systems i.e. CRM, inventory management, workflows, project management tools etc the better. Because you want to be measuring other aspects of your business like marketing and lead gen, sales, fulfillment and operations.

Your business' Value Chain. This is so key.

Centralising all your data allows you to put together a more comprehensive view of your business and improve organizational performance.

The primary purpose of reporting is to communicate results and information through to your relevant stakeholders.

Accordingly it needs to be given context.

What you report in management meetings will be different to what is reported to your board of directors or investors.

A good accountant will help you identify 'who is this for?' and establish a system from there.

Management reports should be issued on a monthly basis. These reports are used for understanding business activity for decision making. This is not to be confused with your annual statutory year-end reporting issued by your tax accountant. These reports should never be used to make business decisions because they are completely out of date.

Cash Flow Forecasting & Operations

Whilst many of the activities like bookkeeping and reporting are 'historical' in nature, Cash Flow Forecasting that links to your Operations is a function of your business finance stack which faces forward.

It's the process of taking your historical data and using it to build forecasts and predictive reporting. Here we develop rolling budgets, maintain short range cash flow forecasts and undertake analysis on your target financial performance compared with your actual activity.

In high-growth businesses this is critical, so you are on top of your cash flow, margins and working capital at every stage.

The attitude that financial budgets and forecasts are a waste of time and energy is a terrible misconception and a major missed opportunity for a business.

The value in having a budget is that it really serves as a quantification of your goals. It builds an accountability framework to drive what you want to achieve every month, every quarter, every year.

Not only that and probably more importantly having a robust cash flow forecast at your fingertips can help you identify cash flow issues and plan ahead with your finance providers or investors. This can literally mean the difference between staying in business and being out of business so it's a crucial part of the finance pyramid.

CFO (Chief Financial Officer)

What does a CFO actually do?

The primary responsibility of a CFO is to optimize the financial performance of a company, including its reporting, cash flow, and returns from its investments and strategies.

They sit at the top of the pyramid and help monitor, control and improve financial performance.

Most small businesses never get to appreciate what a CFO brings to the table. Their business only grows to a certain size and the costs to hire one is very much prohibitive.

Given there is a limited budget in a small business for most things, does it mean you should miss out on great cash flow management and better data analysis.

We think it shouldn't...because the benefits of sound financial management speak for themselves.

So what are you missing out on?

The CFO's Role in Growth

The job of the CFO falls into three main categories:

- ➔ **Reporting**

Reporting takes up a lot of a CFO's time. They will usually have a team of professionals around them who prepare the company's financial reports required for shareholders, employees, lenders, research analysts, governments, and regulatory bodies. Collectively the team responsible for all these activities reports to the CFO and they check over everything to ensure the reports are prepared in an accurate and timely manner.

- ➔ **Cash flow management**

The CFO needs to ensure the company is able to meet its financial commitments and manage cash flow in the most efficient way. This may be the same group of people who prepare the reports but can be a separate section of the finance team if your company is big enough. This group is tasked with managing the company's cash balance and working capital, such as accounts payable, accounts receivable, and inventory. They also carry out the issuing of any debt, managing investments, and handle other liquidity-related decisions.

- ➔ **Return on Investment**

The third thing a CFO does is help earn the company earn the highest possible risk-adjusted return on assets and return on capital (or return on equity). This is where the financial planning and analysis comes into play to help the CFO forecast future cash flow of the business and then compare actual results to what was budgeted. This part of the finance function plays a critical role in analytics and decision making in the business.

If the company has a sales department or development team, they also play a big part in creating (or attempting to create) optimal investment returns for the business.

Most small businesses never get to experience the value a good CFO brings into an organisation, looking at the cost of hiring them, instead of understanding the value they bring to the business in:

★ Driving accurate and timely reporting
★ Managing cash flow, working capital and liquidity
★ Analysing return on capital and investments
★ Generally assisting the board and management team make smarter financial decisions

What Else Does a CFO Do?

The above is not all a CFO does. Well, the above is actually quite a lot for a CFO to do, but there are other duties they can fulfill such as leadership, communication with the board, negotiating with suppliers and vendors, and supporting your business' mission, vision, values, and culture.

Other groups that might report to the CFO include supply chain, procurement, information technology (IT), and almost any other department, depending on the organization and the skill set of the CFO.

Although the value a CFO brings to a small business is initially hard to measure, hopefully you can now see why you would want to bring this skill set into your organisation.

We've found even if delivered on a part-time arrangement the opportunity to provide tactical, boots on the ground advice to help forecast financial performance and provide some insights into some of the financial levers that can be pulled within the business to make it more profitable is absolutely possible.

Especially with the evolution of cloud accounting and other operational apps.

Finance Function GAP

In our experience the needs around the finance function go largely unmet in 7 Figure businesses. As a result the financial trends are not identified and business strategy becomes too fragmented.

This leads to cash flow gaps, indecision and poor execution of business' vision.

Remember your tax accountants focus is largely geared toward helping you with compliance and saving tax.

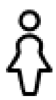
Whereas a CFO's focus is about driving financial performance and improvement across the business to increase profits, cash flow and valuation.

The dilemma then is whilst most businesses can receive value from employing the skills and capabilities of a CFO it does come at a cost.

The decision is simple - does the value they deliver outweigh their cost?

For a business to make an informed choice on this topic, we must first understand the needs of a business within the context of its size.

Finance Function Needs Analysis

Solopreneur	**Small business**	**Private Enterprise**	**Medium Enterprise**
			
< 250K revenue	**<250K - $1M revenue**	**<$1M - $10M revenue**	**< $10M revenue**
- Tax accountant - Bank balance accounting	- Tax accountant - Bookkeeper	- Tax accountant - Bookkeeper - Reporting and systems - Operational Finance - Part time CFO	- Tax accountant - Bookkeeper - Reporting and systems - Operational Finance - Full time CFO

The Information Flow and Timing

The table below summarises the basic activities and timeframes of how a well organised finance function should operate.

Function	**Responsibility**
Complete accounting reconciliations by the 14th day from end of month	Bookkeeper
Monthly financial report and KPI performance dashboard generated the	Financial Accountant

same day	
Update cash flow budget, maintain short range cash flow forecasts and understanding analysis on your target financial performance compared to your actual activity	Finance Manager or CFO
Lodge tax compliance (business activity statements, income tax returns)	Tax accountant

How to Resource Each Function of the Finance Stack

A common question that often comes up is whether you should outsource or directly employ your own finance team. Our response is always this - is finance a core competency of your business?

An outsourced provider can bring a multi-disciplined approach and 'best practice' standards to your business. For example being well versed on the latest software and systems to help you extract value from your data, saving you both time and money.

From a financial cost perspective, consider the options below:

Employee Costs	**Outsourcing**
Bookkeeper - $70k per annum (salary package)	Outsourced bookkeeping services $1k - $3k per month ($36k per annum)
Financial Controller - $150k per annum (salary package)	Part-time CFO $2k -$4k per month ($48k per annum)
Total: $220,000 per annum (min)	**Total: $84,000 per annum (max)**
Potential Annualised Cost Saving: $136k per annum	

KPIs

EXPLAINED

Let's start with the basics.

KPI: Key Performance Indicator

A good definition. Measures that help you understand how you are doing against your objectives.

Very simply they are the numbers that tell you about the health of your business.

The numbers tell you the truth and show you reality...

Growing your business starts with learning where you're at, Specifically learning the numbers inside and out to find the gaps and then tracking them to see how well you're doing.

If you don't know your numbers, you don't have control over your business. KPIs are measures that help you understand how you are doing against your objectives.

The numbers tell the truth. They show you what is really going.

There are a few key elements of a KPI:

- ➔ They're specific and measurable
- ➔ They're important to drive the results of your business
- ➔ They're easy to understand
- ➔ They're regularly tracked
- ➔ They're visible

And they're only handy if you actually use them.

The numbers will help you drive your business' strategy. The strategy then drives the actions you need to take and in what time. The action then drives the results.

After all that, we are back at the numbers and from here the cycle repeats.

This process is only beneficial to you if you take action and commit to listing out the key KPIs and tracking them on a regular basis.

Leading &

LAGGING KPIs

One important thing you must do with your KPIs is split them into Leading and Lagging.

Most people focus on the goals and results (i.e. revenue) which is actually a lagging measure.

You have to ask what drives the goal? And what can you best influence and manage to achieve the results?

That's where lead measures (or Leading KPIs) are hiding.

You'll want a good mix of both of these, however the real value is from driving the Lead measures day-to-day, this will be your best bet to drive the Lagging results you want.

6 Rules for KPIs

The reality is: not all KPIs are created equal.

It's not enough to simply track the numbers, it's **WHAT** numbers you track that matter the most.

Most people track a few simple numbers that really aren't relevant to improving their business.

For example, you could track website visits or number of engagements on social media but those numbers are not in the top 20 numbers relevant to your business.

They're easy to see, but they are vanity metrics. They don't go into any detail about what I need to know.

To help you figure out what matters here are some rules we recommend you keep in mind.

Rule 1 **Does this KPI drive the end results you want?**

Rule 2 Does the customer care about it?

Rule 3 Is it simple and direct?

Rule 4 Set standard and stretch goals.

Rule 5 Compare across multiple data points - the trend is your friend.

Rule 6 Is this measure related to the 80/20 of your business?

Example KPIs

Marketing	Sales	Fulfilment
Customer Acquisition Cost	Avg Time to Close (Days)	Time to Delivery (Days)
# New Leads	Sales Conversion %	Profit per Product
Pipeline $ Value	Avg Order Value $	Labour Efficiency
LTV $	$ Repeat Customers	Purchase Renewals %
Employee Retention	Customer Satisfaction	Profit $ / Margin %
		Free Clash Flow

Your Value Chain

EXPLAINED

The Start of Your Machine

The Value Chain is a series of steps that anyone has to take to go through from not knowing about your business at all...all the way through to becoming a raving fan.

A simply view of the Value Chain can be broken down into 3 steps:

This gives you a 30,000 foot view of your business so that you can better understand and manage things, so you can see exactly where your time and energy and money needs to go.

Once each step is healthy and working well, you will have a hugely successful business.

This high level understanding helps take away that feeling of overwhelm and break it down into bite-sized pieces to make more focused and better strategic decisions.

Decisions that lead to much more consistency around everything you're doing.

You'll want to have KPIs across the key elements of your Value Chain so that you can pinpoint what areas are doing well and which are holding you back.

The Top

6 NUMBERS

The top KPIs that you need to track are different for every business.

There of course some similar ones like Profit, but you will have to come up with the most important numbers to keep an eye on for YOUR business.

Here's some of the areas we look at with our clients:

PROFIT

Obvious, but this is a must.

Every business owner gets excited about growing their revenues but if you're not making a solid profit margin then there is something really wrong that needs to be fixed like:

- ➔ Your pricing
- ➔ The demand and sales volumes
- ➔ Increasing direct costs of sales
- ➔ Operating costs not being reviewed

POTENTIAL KPIs

- ➔ Profit $
- ➔ Profit Margin %

CASH

Cash is the oxygen you need to fuel your growth.

It's a pretty important one, because you don't pay your bills with profit, you need to use cash.

What is the cash position? And is the cash flow positive or negative. That's what I want to know.

What are 3 ways you can improve your cash flow?

Do you have 2 to 3 months of expenses saved up?

Do you even know if your business is producing free cash flow?

POTENTIAL KPIs

- Cash Balance
- Free Cash Flow
- Core Capital vs Target

CUSTOMER LIFETIME VALUE (LTV)

What is a customer worth to you? And is it more than what it costs you to acquire them?

Once you know this number, it is much easier to grow your business.

Because there is more than one way to grow your revenues:

1. Get more customers
2. Increase the average transaction value
3. Increase the frequency they repurchase

The last two are related to LTV.

Have you ever tracked the average LTV? And what are some strategies you can implement to get this number much higher.

Because we all know...it usually costs 3 x as much to acquire a new customer than it does to simply service the ones you already got.

POTENTIAL KPIs

- LTV $
- Average Transaction Value $
- % of Repeat Customers

CUSTOMER ACQUISITION COSTS (CAC)

One of the most important things around marketing is how much does it cost you to acquire a new customer?

In other words how much do you have to spend on marketing before you land a new customer.

Here you need to look back at your LTV number and work out increasing this number whilst at the same time reducing your CAC.

If you can acquire customers and break even - then anything that happens after is pure profit.

POTENTIAL KPIs

- ➔ CAC $
- ➔ Break even time period (months)
- ➔ ROI $

SALES

Sales is the number one lever of growth in any business. Push the sales lever up through:

- ➔ Price increases
- ➔ Selling more stuff

Once your marketing department has brought in a lead are measuring:

- ➔ Sales Conversion rate %
- ➔ Average time to close the sale
- ➔ Average order value

FULFILLMENT

This is the one we can't forget about. Because this is where most businesses break.

It's essential to evaluate the key numbers that help you measure your delivery of your offerings and maximise this.

Because you can't afford to have fulfillment take all of your time...or create a bad experience for your buyers.

POTENTIAL KPIs

- ➔ Time to deliver projects
- ➔ % Repurchase
- ➔ Profitability per Product
- ➔ % of Expenses used in Fulfillment

There are obviously way more KPIs and categories to explore, but the goal here is to SIMPLIFY.

Once you have a list of around 10-15 KPIs that will measure the essential factors of your business then it is time to create a dashboard. This dashboard should be simple and clear.

One

CORE NUMBER

If you want to set yourself up for success you have to SIMPLIFY it down.

I see too many business owners over complicate their operations and model. They end up confused, stressed and overwhelmed.

Let's break it down to ONE number at a time.

ONE share price (your value) ONE focus (your niche or specialisation) ONE thing holding you back and ONE key action at a time.

What we want to do is keep you focused and link this to ONE core number at a time that your team can get behind and help drive.

For us, the ONE metric to watch is the value of your business. What are we doing to take your business value higher and maximise value at each stage.

The great Jim Collins talks about having ONE core number to measure your entire business against being Profit Per Customer or Product, which represents your underlying economic value.

You must put this ONE number front and centre.

MAKE IT VISUAL

WITH SOME SIMPLE DASHBOARDS

Focus is your number one super power in business. And you can really only focus on doing one thing at a time.

Whilst it's great to learn about KPIs and think about the metrics you should be tracking it means nothing if you don't know how to capture and measure what is going on.

Millions of people love sport for a big reason. **To see their team win.**

You only know if your team wins if there is a scoreboard to watch.

That is what a dashboard is there to help you do.

There are different types of Dashboards we use:

Weekly Value Chain

CEO Dashboard

Income Statement

The key elements of an awesome dashboard are:

- ➔ Simple so that you keep using it
- ➔ Focused on the numbers that matter
- ➔ Updated, visible and accessible to your organisation so that
- ➔ Clearly shows if you are winning or losing, and where the bottlenecks are.

Remember: The numbers will tell you what you need to know. They will give you a reality check.

Whilst most business owners will shy away from the numbers because the reality isn't what they set out to achieve, it's unavoidable if you genuinely want to to improve things and get to where you want to go.

- ➔ Start with the key numbers - even if it's only a handful to begin
- ➔ Create a dashboard to understand and monitor your progress
- ➔ Change your strategy and actions based on them...

And you'll start growing, probably faster than you ever thought possible.

ACTION

STEPS

If you're ready to get started and up your biz finances and track the key numbers that matter we recommend the following:

- ➔ Review your financials, balance sheet and income statement with your accountant to see how healthy your business actually is.
- ➔ Test your cash flows by comparing your profit to the amount of money in the bank.
- ➔ Review the finance stack model...and depending on the size of business what support do you think you need.
- ➔ Brainstorm the top 20+ KPIs for your business
- ➔ Put names next to each KPI as to who in your organisation will own it
- ➔ Identify your top 3 most important leading and lagging indicators
- ➔ Come up with your ONE core metric that will tell you the most about the financial health of your business
- ➔ Start simple. No complex software please (we prefer excel or google sheets).
- ➔ Map out your Value Chain in detail and key metrics for each step
- ➔ Track and monitor the numbers, adjust your actions accordingly, and repeat. And you'll start growing, probably faster than you ever thought possible.

Then...you're ready for more Growth

Remember: The numbers will bring you more clarity about your business, what you should do, and where the bottlenecks are.

Take this guide and actions more seriously and you will 20 steps ahead of your closest competitors and heading towards a business that can:

- ➔ Optimise profitability
- ➔ Accelerate and generate more free cash flows
- ➔ Grow with less stress
- ➔ Hit your goals sooner