By The Numbers

A friend asks, "How's business?" and you respond "Great!"

A week later you find yourself scrambling to make your payroll. How can that be? What went wrong?

Your store remodeling is finished and your vignettes look terrific. You've got the most professional team you've ever had and sales are way up over last year. You finally have enough flat screen inventory to sell and all of your installation crews are busy.

Your problem may not be with what you *know*, but instead with what you *don't know*. Much like how your pulse, heart rate and blood pressure tells you about your own health, your Balance Sheet, Income Statement and Statement of Cash Flow provides clues to your company's well-being. Tracking your weight may be similar to tracking the productivity of your inventory, your facilities and your team members.

Savvy business owners have learned to carefully analyze their financial statements every month. They look for trends and for opportunities for improvement. They know that even small variances in their key ratios can signal either big hurdles or big payoffs ahead. They know how to respond and what actions to take. They manage their businesses by the numbers, not by the seat of their pants.

Most dealers, though, go right to the bottom line. If their revenues exceeded their expenses and they showed a profit, all is good. Unfortunately, it's not that easy.

If You Can't Measure It You Can't Manage It—What the Reports Are

The pros view the Balance Sheet as a company's report card. It's the report that banks and finance companies pay close attention to. It compares what a company *owns*—its assets—to what it *owes—its* liabilities. Key components of the Balance Sheet are Assets, Liabilities and Stockholders Equity.

Assets include cash, accounts receivable, inventory, vehicles, tools and equipment, store fixtures and improvements, and any buildings and real estate owned by the company.

Accounts payable, floor plan payments, customer deposits, leases, bank loans, and any payroll or taxes that are due are Liabilities.

Both Assets and Liabilities are classified as either "Current" or "Long Term." Current refers to assets and liabilities that will "turn" within one year. Inventory is a Current Asset because we hope to sell it within one year. Accounts Payable are Current Liabilities because they need to be paid during the coming year.

Stockholders Equity includes any initial investments made to start the company—the stock—plus all of the retained earnings (or losses) since its inception.

It goes without saying that the Balance Sheet must balance. The total of all Assets equals Liabilities plus Stockholders Equity.

The Income Statement shows the company's revenues and expenses during a given period of time. While a Balance Sheet is sort of an instant photo at a specific point in time, the Income Statement is more historical tracking sales and operating costs for a month, a quarter or a year.

A Cash Flow Statement uses previous cash receipts and outflows—say last month's bills, rent and utility payments, floor plan payables—to project a company's cash needs going forward.

Productivity Reports like sales per square foot, sales per sales associate, sales per team member and inventory turns tell you how well you are using your people, your inventory and your facilities.

Analysis Without Paralysis

Having your bookkeeper or accountant generate great financial statements is worthless if you don't take the time to completely review them. Your need to use the information to compare this month's sales, expenses, inventory levels and accounts receivable with those last month and at the same time last year.

In coming columns I'll give you some ideas about what to do with the numbers your accounting folks give you. I'll show you how to develop the important key ratios from your balance sheet like Current Ratio, Quick Ratio and Cash Ratio.

Those ratios will help you better understand how to pay yours bills promptly and to manage your assets and liabilities.

We'll also delve into your income statement and discover that the bottom line isn't necessarily the be all and end all.

We'll look at the relationship between the income statement and the balance sheet to see how the Cost of Goods sold relates to average inventory to determine your inventory turns. We'll also look to the all-important Gross Margin Return on Inventory (GMROI) to help you balance inventory levels with margin.

In the Future

We'll look to see who's naughty and nice in terms of productivity so that you can determine what products, people and locations generate your largest returns.

We'll look into succession, banking relationships, accounts receivables, cash management, damages, drug policies and employee theft to see what impact those events might have on the health and well-being of your business.

Hang on! We're in for a great ride. Get out your financial statements and follow along with us. Please don't hesitate to contact me at elly@ellyvalas.com or at 303/316-7569 with any questions you have along the way.

Get out your calculators and get ready to take your businesses to the next level!

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