



Know Your Numbers

Author: **Chandu Kashiram**

Published: 23 December 2024

You are running a small, micro to medium size business. It is tough just to keep the lights on. So, the question is when you have little time in the day, what should you be looking for to manage your businesses' finances? Do you look at them when your bookkeeper or accountant gives you some information or only when you ask for it, or once a year?

This **KWIK series** aims to start conversations amongst individuals, social groups, and in organisations. We share practical knowledge – built up over decades, and which would have helped us if we knew it earlier. We believe that people between 25 and 45, if they have access to this knowledge, are ideally placed to lead society to help rebuild South Africa.

Think About

- Which numbers do I need to know 'like the back of my hand'?
- Which numbers should I be tracking daily, weekly, monthly or yearly?
- Do I check my bank account daily?
- Do I reconcile my bank statements with the rest of my transactional information?
- What matters most to me? Cash flow or Profit?
- Do I know the business' break-even-point?
- Do I fear that I may run out of money? And... do I know when or why it will happen?
- I am marking up my goods, but how do I know if it is too much or too little?
- Do I understand 'price variance' and 'volume variance' and how to use these to make financial decisions?

If you answered 'no' to most of these questions, let me explain how you should keep an eye on your businesses finances, and more importantly, to 'know your numbers'. For starters, you must analyse and balance your bank account daily. I have a spreadsheet which I use to analyse income and expenses for each day and month. Having a view of all 12 months allows me to forecast my cash flow for the year, compare it to my budget and predict when I am going to need a cash injection into the business. For a rapidly growing business, this is critical. Analyse your sales daily and weekly. Understand this simple principle: 'Profit is a matter of opinion, but cash flow is real'. Many of us like crunching numbers in our heads. We think, 'I bought low and sold high, so I am good'. But in fact, the only reality is the money in the bank. You may be selling high volumes, but if it is mostly on credit, then you won't have enough cash in the bank. Is yours a high-volume low-margin business or the other way around? It's important to understand this and be able to see it in your numbers. A low-margin business means you have a lot of cash in the bank, but most of it is to replace the stock you sold. So, keep yours and your family's fingers out of the cash register to buy groceries or clothing. Having customers pay by card or EFT helps with this. Work out your "break-even-volume", especially if you are a start-up. Your financial numbers should guide you in making decisions around hiring more staff or spending more on marketing, or other support activities. Understand the relationship between 'gross profit' and 'mark-up'. If you need 30% gross profit to cover your overheads, then you need a 50% mark-up on each item sold. Where the market cannot handle a 50% mark-up, you may need to reduce product cost, increase sales volumes, or reduce your overheads to compete. This is what it means to know your numbers. When it comes to fixed overheads, know which items are non-negotiable and must be provided for. Provide for items such as rent, utilities, salaries and wages, insurance, etc. before launching an advertising campaign. The latter may be necessary, but timing is important. Your balance sheet will tell if you have adequate working capital. Have you injected sufficient funds to purchase longer term assets such as fittings and fixtures, delivery vehicles, etc.? If you are relying on an overdraft to fund delivery vehicles, you have a serious cash flow problem, or your business is not sufficiently capitalised. Keep an eye on 'debtors days' vs 'creditors days'. If you are paying creditors before your debtors pay you, you may run out of cash.

Practical Tips

- Manage cash, sales, purchases, stock, etc., daily.
 - Have a system (like my spreadsheet) that you can use to forecast for the next 12 months, at least.
 - Use this to budget more accurately and to get finances in place well before you run out.
 - Get professional help if your numbers don't make sense to you.
 - Trust your 'gut instinct' but also see if the numbers stack-up.
- We provide coaching and mentoring sessions for young leaders wishing to equip themselves with knowledge to make a difference in society.
- Coaching takes place face-to-face or online, one-on-one or in groups – as suitable for participants.
- Requests for topics to be covered in this series are welcome.
- Other Lucidum Learning resources are available on our website at www.lucidum.africa.

Contact Us

www.lucidum.africa

Chandu Kashiram

+27(0)82 442 8377

chandu@lucidum.africa

