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ChangeAbility
The Newsletter of Redpoint Business Coaching
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Welcome!

You are reading ChangeAbility, a newsletter from Redpoint Business Coaching run by Urs Koenig PhD, MBA.

ChangeAbility is a bimonthly newsletter bringing you hands-on tips and cool resources for starting or building your business.

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I Keep Fit: Financially!

Over the last two months, I gained two very valuable pieces of information for my athletic and business life:

- (1) While my maximum power output on the bike is as strong as ever, and at 575 Watts even matches some Olympic athletes ☺, my power output at my anaerobic threshold has decreased from 375 to 350 Watts (the anaerobic threshold is where the body is taking in exactly as much oxygen as it is 'using')
- (2) For every \$1 of additional sales in my business I make 81 cents in profit. This number is down from 85 cents last quarter.

You ask: Why is this important? What is the connection and why on Earth should you care?

Let me explain:

Much as competitive athletes regularly assess their performance with different tests in order to plan and fine-tune their training, business owners need to assess the financial fitness of their business. The finest athletes don't succeed on luck, and neither do the most successful entrepreneurs.

To use a different sort of analogy: Your physician takes a regular blood test at your annual physical in order to spot future potential problems in your health before they become serious (you *are* doing your annual physical right!?) We need to do exactly the same for our business.

The lifeblood of your business is the cash and assets which flow in and out. By monitoring the ratios I've spelled out below over time, and comparing yourself to the average of your industry, you will be able to detect problems (e.g. cash shortage) early and take appropriate action before too much of the valuable life blood of your business is lost.

I recommend monitoring at least these ratios:

+Return on Assets = Net Profit before Tax/Total Assets

Measure the efficiency of your assets in generating profits. This is probably the most widely used measure of business success. A ratio of 8% for example means that for every \$1 in assets, you generate 8 cents in net profit. The higher this ratio the better.

+ Quick Ratio = Cash+Accounts Receivable/Current Liabilities

Measures your ability to pay your bills (your liquidity). If your ratio is 1.5, you have \$1.50 in cash and accounts receivable (money which is owed to you) to pay every \$1 of your bills. A higher rather than lower ratio is in general desirable.

+Debt to Net worth = Total Liabilities /Net Worth

Measures how much debt you have, which equals the financial risk of your business. A ratio of 1.2 means that for every \$1 dollar you have invested in your business, you owe \$1.20 to your creditors. The higher this number, the riskier your business.

+Inventory Turnover = Cost of Goods Sold/Inventory (for product oriented businesses)

Measure the rate at which your inventory is used on an annual basis. In other words it tells you how fast your merchandise is moving through your business. A ratio of 10 means that you are selling your average dollar of inventory ten times during the year (or 'turning' it 10 times). The higher this ratio the better.

+Accounts Receivable Turnover = Sales/Accounts Receivable

Measures the rate at which you are collecting your accounts receivable (the money owed to you). A ratio of 6 means that you are collecting your average accounts receivable dollar six times during the year. The higher this ratio the better.

In addition to the above ratios, I urge you to do a "Break-Even" Analysis of your business.

Break-Even Point=The sales volume (in units or \$) at which you don't lose money and don't yet make a profit (where you "break even"). If you sell more than this number, you start to make a profit; if you sell less, you lose money.

The Break-Even analysis is an extremely powerful tool. It enables you to answer crucial questions such as:

+How much more do I have to sell to make it worthwhile to add another sales person?

+How much more do I have to sell if I want to increase the profit of my business by \$10,000 next year? (Hint: NOT \$10,000)

You need reliable financial statements to calculate these ratios. If you do not have at least monthly financial statements for your business, make it a priority to get them. Hire a good book keeper or use a program such as *Quick Books* or *Quicken* yourself.

Much like athletes periodically track results of performance tests over time and take appropriate action to improve performance, you need to track these ratios at least quarterly. If you see your inventory turn dropping, for example, you need to decide how you can get rid of the 'dead wood' in your inventory (how about a sale or sending it back to your vendors?) and focus on what is 'turning' (i.e. selling).

The rules of the game for staying healthy both financially and physically are:

- 1) Detect problems early
- 2) Find the causes
- 3) Take decisive action.

As for me, I have started a new threshold-training program in order to get back to 375 watts and have started to cut my costs, in order to get back to my 85 cents of profit per \$1 of additional sales.

Shoot me an email at urs@redpointcoaching.com if you want to learn more about how to measure and improve the financial fitness of *your* business.

II How to Gracefully Overcome Mistakes

You never make mistakes with your clients, right?

You never miss a deadline...never forget to send a promised file...never forget to return all phone calls? Right?

I know, me neither.....

But for all those who occasionally mess up, here are some lessons on how to deal with your customer when you are making mistakes, demonstrated beautifully by our accountant.

Our accountant's firm made a few small errors on my wife's tax return, but we still think he is the best because he knows how to keep us happy even when something goes wrong!

Let me explain:

1. He listens to his clients and admits mistakes immediately.
Remember that when you make mistakes: When you make a mistake simply own up to it. Listen what your client has to say, genuinely sympathize with their frustration and take responsibility. Never, ever play the blame game!
2. He does not make up excuses – ever.
Remember: What matters most is the client's perception. Your client does not care much about your side of the story, what 'really happened', why things derailed or who is responsible within your company. All they want to know is what you will do to fix it, how soon you will turn it around and how much it will cost them.

3. He quickly figures out what to do to make amends and asks for client input.
Offer your solutions to the problem, but also get your clients to tell you what *you* can do to fix the problem and then go out of your way to act on it and *over* deliver. In our accountant's case it meant he personally hand delivered my wife's corrected tax return in rush hour Seattle traffic, two days before the end of the tax season! (and he is a senior partner in the firm – he could have easily sent over an underling).

Result? We can't remember exactly what needed fixing on the tax return, but we sure remember that visit to our doorstep!

Wanna know who our great accountant is? Shoot me an email: urs@redpointcoaching.com and I get you in touch.

IV Great Business Quotes

(from 'Never Confuse a Memo with Reality' by Richard A. Moran)

“Develop a network of friends and advisors that can give you advice on issue you are dealing with. Think of it as your own personal board of directors.”

“The age of strategic planning is over...it is now the age of implementation.”

“Just because you are in business and have a family doesn't mean you can't stay in shape-it actually makes it even more important.”

“Remember that almost all business is painfully simple. Strive to demystify.”

“Be weary of slogans like 'The Future is Here' or 'Excellence Through People.' Look for the beef.

IV Upcoming Workshops

For Seattle subscribers:

BUSINESS PLAN WORKSHOP AT THE U.S. SMALL BUSINESS ADMINISTRATION (SBA) – “BUILDING YOUR BUSINESS PLAN.”

- Wednesday July 13th (all day)

I will be teaching the Marketing Plan and Operation Plan section of the Small Business Administration workshop 'Building a Business Plan' in downtown Seattle. To register and for more info on this and other small business workshops, see the SBA and the Service Corps of Retired Executives (SCORE) website: <http://www.sba.gov/wa/seattle/>, <http://www.seattlescore.org/index.htm>, or call the SBA at 206-553-7310.

BUSINESS START-UP WORKSHOP -- "THINKING OF BECOMING YOUR OWN BOSS?"

If you are thinking of, or are in the process of, starting your own business, or if you want to learn how to run your business better, please join me for this 3-hour workshop at Centerpoint, Seattle's leading center for life and career renewal, based in downtown Seattle. For more information, please send me an email or check out: www.centerpointonline.org

The workshop will be offered on:

- August 10th, 6pm to 9pm

The fee is \$54 for non-members and \$45 for Centerpoint Associate Members.

+++++LET ME KNOW WHAT YOU THINK+++++
Simply reply to this newsletter. I welcome your feedback!

ChangeAbility is a publication of Redpoint Business Coaching, which is run by Urs Koenig PhD, MBA

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