Putting Together the Entrepreneurial Puzzle:

The Ten Pieces Every Business Needs to Succeed

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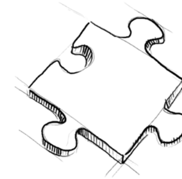


Every company needs a scorecard. Without one, you're flying with a blindfold on and you're more likely to crash than you are to succeed. Nonetheless, it's not uncommon for businesses to operate without good financial measuring tools in place. This happens in part because we all come to our businesses with our own personal beliefs about money. These beliefs (derived from our life experiences, including our family and education) color our understanding of money—who should have it and what should be done with it by those who do have it. But it also happens because many of us don't have a basic business finance education. Without this type of education, you might not have the basic tools you need to successfully run your business. Not having these tools makes it hard to grow your business intentionally over the long-term, while also making you more susceptible to fraud.

However averse you may be to number crunching, basic business finances are something you have to learn. Even if you've learned how to read a Profit and Loss Statement and a Balance Sheet in the course of running your business, you probably don't know as much as you think you do. After I bought my own company, I took a three-day course in business finances at what was then Seafirst Bank. Boy, did that open my eyes to everything I didn't know about my own company's finances. By the end of the three days, though, I had gained a basic vocabulary of finance and was at least able to ask the right questions of the right people. Similarly, you don't have to become a finance professional. You just need to know enough of the basics to really see how your company operates. When

you can do that, you can run your business intentionally to weather ups and downs and ultimately achieve your overall goals.

Basic Financial Terms

In order to begin to have a basic understanding of business finances, you have to start with terminology. Below is a list of some of the most common financial terms (and the tools they describe) that you and your executive team should understand. This list is not exhaustive, but it should give you a good start. You can always dig deeper in one of the books listed at the end of this chapter.

AP Accounts Payable.

AR Accounts Receivable.

Accrual Basis Accrual basis accounting records income items when they are earned (rather than when payment is received), and records deductions when expenses are incurred (rather than when payment is made).

Asset A resource with monetary value, including cash, accounts receivable, inventory, real estate, machinery, collectibles, and securities.

Balance Sheet A business's financial statement that provides a picture of its assets, debts, and net worth at a specific time.

COGS Cost of Goods Sold.

Cash Basis Cash basis accounting records revenue when cash is received and records expenses when cash is paid.

Current Assets Assets that can be converted to cash within a year.

Current Liabilities Liabilities that must be paid within a year.

EBITDA Earnings Before Income, Taxes, Depreciation, and Amortization.

Fixed Assets Any long-term asset (such as a building, tract of land, or patent) that will not be converted to cash within a year.

Gross Margin Amount after cost of goods are taken from revenue.

Income Statement (also called a Profit and Loss Statement) The financial statement that presents both revenues and expenses during a specified time period.

Liabilities The claims of those who have made loans to a company; debts.

Liquidity The ability or ease with which assets can be converted into cash; also the degree to which one can obtain the full cash value of an investment.

Net Income Profit after taxes.

Net Profit A company's profitability after all costs have been accounted for. Also called "the bottom line."

Net Profit Margin A measure of a company's profitability and efficiency, calculated by dividing Net Profit by sales.

Net Sales Amount of sales found by subtracting customer returns, discounts, and allowances from money collected for goods and services.

Net Worth Value found by subtracting all liabilities from all assets.

Operating Costs and Expenses The costs and expenses necessary to operate a company; this includes manufacturing, marketing, research and development, and operating costs.

Operating Income The income derived after subtracting operating costs and expenses from net sales.

Operating Margin A measure of a company's profitability and efficiency, calculated by dividing operating profit by sales.

Operating Profit The profit earned from a company's core operations only, not including any profit from investments. (Sales – Operating Expenses including production costs = Operating Profit)

Profit Margin The margin found by dividing a company's post-tax net earnings by sales. Profit margin measures how well one company can earn money from sales relative to others.

Return On Equity (ROE) The value found by dividing the company's net income by its net assets. ROE measures the amount a company earns on shareholder investments.

Total Assets The sum found by adding property, plant, and equipment asset values to current asset values.

Total Debt to Total Assets The ratio found by dividing short- and long-term debts by the total assets of the firm. This ratio measures a company's financial risk, showing how much of the business's property has been financed by debt.

Total Liabilities The liabilities found by adding current liabilities to long-term debts.

Key Financial Indicators

Following are the Key Financial Indicators every business should be tracking, regardless of industry. They measure the financial health of the company and act as signposts by which you can make the best decisions for your business. It's not important for you to memorize the formulas. It is important that you know what they mean and that your financial person—Bookkeeper, Controller, CFO, or outside Accountant—provide the data for those indicators on a regular basis so that you can measure them over time. The key is to plan and course correct as needed based on your signposts.

Following these indicators is, of course, in addition to your standard financial statements (Profit and Loss/Income, Balance Sheet, and Cash Flow). You should receive these statements by the fifth to seventh working day of each month. If your accounting person can't provide you these on this schedule, find one who can.

Balance Sheet Ratios

Your balance sheet gives a snapshot of your business's overall health as of the date on which it was calculated, and for that date only. It describes the assets, liabilities, and ownership position as of that date. In order to use it to understand the health of the business, you need to compare it over several time periods. The reason these ratios are important is because they measure the amount of risk in your business. Also known as Liquidity Ratios, these measure your company's ability to survive a short-term financial crisis. When revenues continue to climb while the following ratios decline—a scenario that happens frequently in fast growth companies—lack of cash will not allow you to finance the growth.

Current Ratio measures whether you have enough current assets (defined as anything that can be changed to cash within a year's period) to meet your current liabilities.

Current Ratio = Current Assets ÷ Current Liabilities

Debt to Equity Ratio measures how much your company is financed by borrowing as compared to owner equity. This ratio plays a major role in determining how much you can borrow and at what interest rate. If you have bank financing, this is the ratio the bankers will watch.

Debt to Equity Ratio = Total Liabilities ÷ Net Worth

Quick Ratio measures your company's ability to use its current cash or assets to pay current liabilities. Quick assets include those that can be converted to cash at or near their book value.

Quick Ratio = Cash + Marketable Securities + AR

Leverage Ratio measures your business's capacity to incur debt as a multiple of EBITDA. A conservative ratio would be less than two.

Leverage Ratio = Debt ÷ EBITDA

Profit and Loss (P&L) Ratios

The P&L statement focuses on revenues, expenses, and net income (or loss) over a defined period of time. It measures your company's ability to turn revenue into profit.

Gross Profit or Gross Margin measures how much money you have left after subtracting the COGS, including direct sales expenses (these are usually referred to as "above the line" expenses.) If you sell a product for a dollar and it costs eighty cents to build or buy it, your gross profit is twenty cents. This twenty cents has to cover all your other expenses.

Gross Profit = Revenue – Cost of Goods Sold

Net Operating Profit and EBITDA represent how much money you have left after operating expenses have been paid. This is also referred to as your "net." (Operating expenses and net profit are considered "below the line.") Net Operating Profit should not be confused with cash, because it doesn't mean you still have it in hand. You simply earned

it. People often confuse EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) and Net Operating Profit, but actually they're not quite the same. You may also have heard of this simply as EBIT, without depreciation and amortization. Depending on which software your financial person is using, interest, taxes, depreciation, and amortization might be mixed in with Operating Expenses. If someone asks for any of these three (Net Profit, EBITDA or EBIT), be sure to remember that they are slightly different. You'll want to know all three calculations for your business.

*Net Operating Profit = Gross Profit – Operating Expenses**

*This is sometimes referred to as Selling (indirect), General, and Administrative (SG&A).

Net Profit Net Profit is what's left after *all* other expenses, including depreciation, amortization, interest, and taxes.

Net Profit =
Net Operating Profit – Interest –Other Expenses – Taxes

Operating Ratios

Operating ratios combine information from the balance sheet and the income statement to provide more detailed information about what's really happening with your business.

Gross Margin Although this is sometimes used synonymously with Gross Profit, it's actually an offshoot. Gross Margin measures the percentage of every dollar of sales that becomes gross profit. For example, a Gross Margin of fifty percent means that you earn fifty cents of Gross Profit for every dollar in sales.

Gross Margin = Gross Profit ÷ Sales

Pre-Tax Profit Margin Similar to Gross Margin, your PreTax Profit Margin is the percentage of profit for every dollar of sales. You would use this to compare your results with those of others in your industry.

Pretax Profit Margin = Pretax Profit ÷ Sales

Sales to Assets Ratio measures the amount of sales generated for every dollar of assets owned by your business. For example, a Sales to Assets Ratio of 3.5 means that you generate $3.50 in sales for every dollar of your assets.

Sales to Asset Ratio = Sales ÷ Total Assets

Return on Assets Ratio is similar to Sales to Assets Ratio, but measures instead how much *profit* you generate for every dollar of assets.

Return on Assets Ratio = Pretax Profit ÷ Total Assets

Return on Equity Ratio tells owners how well their investment in their business is doing. Even though it's hard for entrepreneurs to look at their businesses as investments, they really should. The bank certainly does, as do potential buyers.

Return on Equity Ratio = Pretax Profit ÷ Equity

Inventory Turnover Ratio measures how many times a year you sell your inventory. There are two ways to calculate this ratio: either using sales cost or using selling price. Although it's more typical to use actual cost rather than selling price, either one will work for the calculation. Just make sure you use comparable numbers for the dividend and the divisor. In other words, if you use sales cost, you must also use inventory cost. Conversely, if you use selling price, you must also use inventory selling price.

Inventory Turnover Ratio =
Cost of Goods Sold (COGS) ÷ Average Inventory

Days in Inventory Ratio measures how long, on average, it takes to turn over your inventory.

Days in Inventory Ratio =
Days in Inventory Period ÷ Inventory Turnover

Accounts Receivable Turnover Ratio tracks how many times per year you collect your Accounts Receivable.

AR Turnover Ratio = Sales ÷ Accounts Receivable

Collections Period Ratio (Days Outstanding) measures how often, on average, you collect your accounts receivable. This is also called "days to collect," and is an important measure to track, especially if cash flow is an issue. The sooner you collect your AR, the sooner you have cash!

Collections Period Ratio = 365 ÷ AR Turnover

Accounts Payable Turnover Ratio Similar to the receivables side, this measures how many times a year you pay your Accounts Payable.

AP Turnover Ratio = 365 ÷ AP

Payable Period Ratio measures how often you pay your accounts payable.

Payable Period Ratio = 365 ÷ AP Turnover Ratio

Sustainable Growth Rate

Your Sustainable Growth Rate is the rate at which your business can grow and not run out of cash. This calculation will show you how much revenue increase you can absorb without increasing your Debt to Equity Ratio. The higher your Debt to Equity Ratio, the higher the risk in your business. You'll have to decide for yourself your level of risk tolerance. If you're using bank financing, you'll also have to find out your bank's requirements.

However, the Sustainable Growth Rate should not be confused with the rate you *can* grow. You can grow much faster, but growth comes with risk if you don't also grow your profits and manage your assets. If you have a low level of debt, depending on the opportunities available, you can leverage financing to grow at a faster rate. Therefore, the sustainable growth rate can be calculated one of two ways: either assuming no new debt (Scenario A), or assuming a new level of debt (Scenario B).

Same Debt-To-Equity Ratio

FORMULA

$$\frac{(\text{Net Profit\%}) \times (1+\text{Debt/Equity})}{(\text{Var. Assets \% to Sales}) - [\text{NPM\%} \times (1 + \text{Debt}^{*}/\text{Equity})]}$$

*Debt = Total Liabilities

		Scenario A	Scenario B
A) Net Margin %	=	________	________
B) Debt	=	________	________
C) Equity	=	________	________
D) Assets to Sales %	=	________	________

CALCULATION

$$\frac{A \times (1 + B/C)}{D - [A \times (1 + B/C)]}$$

		Scenario A	Scenario B
1) B/C	=	________	________
2) +1	=	________	________
3) x A	=	________	________
4) D - Step 3	=	________	________
5) Step 3 / Step 4	=	________	________

The final percentage is the sustainable growth rate, which is important because every business should know how fast it can grow without outside funding. You really need to take some time to understand this fundamental indicator because, without it, your plans for growth are likely to be unreasonable or unrealistic.

Break-Even Analysis

Your break-even number is the amount of sales that creates just enough revenue to cover all your expenses without a loss *or* a profit. Knowing your break even is critical to understanding what decisions you can make in your business and when. This is often called your "nut," or knowing what it takes to cover expenses. Everything above the nut is extra. On the other hand, if you don't generate enough sales to cover your "nut," eventually the lights will go off for your business.

The easiest way to calculate your break even is to find the amount of sales at the current gross profit margin that equals the current dollar amount of operating expenses.

Break Even = Fixed Expenses + Interest ÷ Gross Margin

Cash Flow Statements

In addition to your Profit and Loss statements and your Balance Sheet, the third report you should be looking at regularly is your Cash Flow Statement. Your Cash Flow Statement will predict how much cash you have and for how long before you no longer have money to pay the bills.

Remember that profits do not equal cash. Cash is the money you have in hand or coming in the short term to pay bills. Profits may already be spent on taxes, interest, depreciation,

long-term debt service, capital purchases, and any number of other items. Cash is king because without it you're out of business. Just like in monopoly, no matter how many hotels you have, if you run out of cash you lose.

Cash Flow Statements can look different, but they should all show the sources of revenue for your business and project out at least ninety, if not 180, days. They should also show debt-service payments and make recommendations as to what to pay and when in order to maximize your money. If you can pay something early to take advantage of a two to three percent discount and you are earning nothing by keeping the money on hand, you should do it. This is the type of money management a good Cash Flow Report will allow you to employ. See the sample cash flow statement at the end of this chapter for an idea of what one might look like.

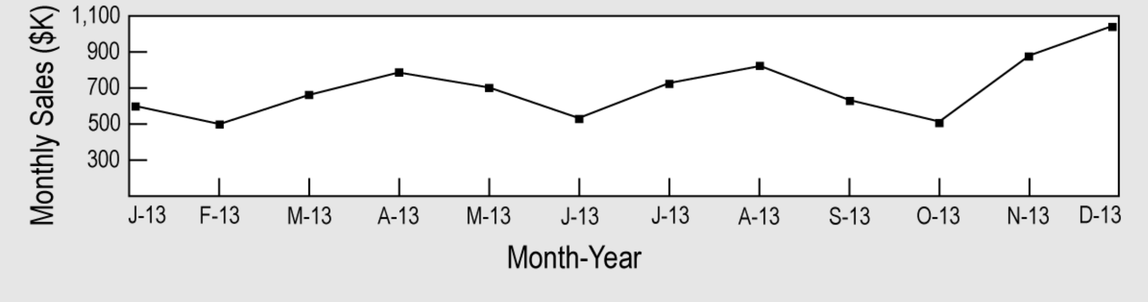
Twelve Month Trailing Charts

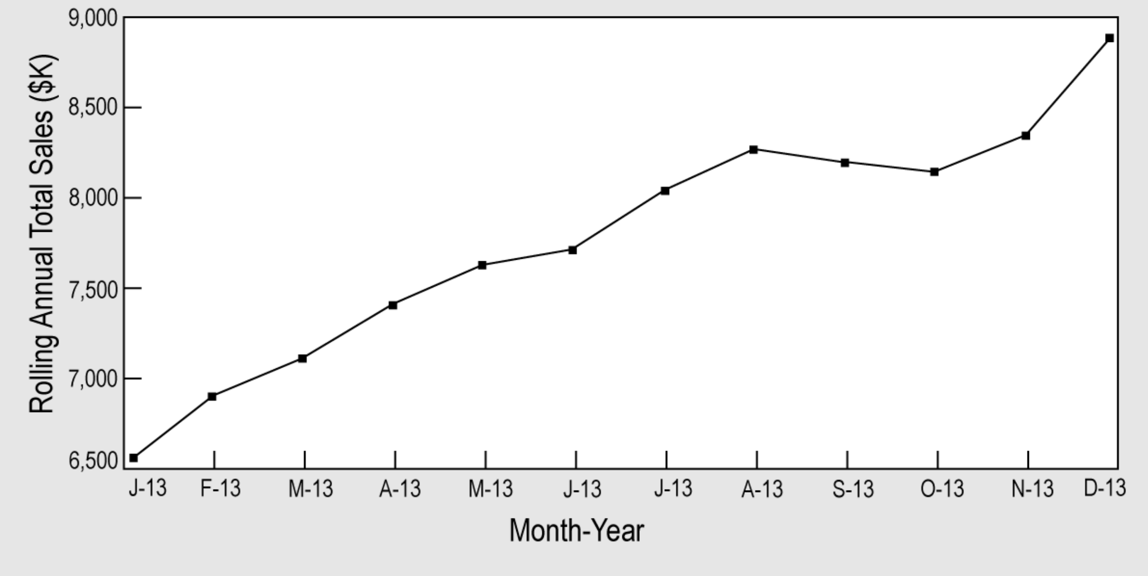
One of the best ways to track data so you can use it in a predictive manner is to use Twelve Month Trailing Charts (often referred to as TTM for total tracked monthly). These allow you to see not only month-to-month trends but also annual trends and to compare the two. A TTM Chart is a rolling annual total that is calculated monthly. Ordinary monthly charts often don't let you know how well you're doing because they only show seasonal or year over year comparisons.

TTM Charts are a fabulous tool because they give you a historical perspective (you can go back as far as you want), while showing a true tend line. Each point on the graph is a total of the previous twelve months, and together they create a very clear picture of how your business is doing and where it is trending. If the line is flat, you're not growing. A downward trend will show even if you had a good month or two. This is a good reality check because, as optimists, we tend to look at the two good months and say things are good. Watching your TTM Chart will allow you to see your company's trends while you still have time to make corrections to your strategy and tactics. Remember what Wayne Gretzky said: "Don't skate to where the puck is, skate to where the puck is going to be."

All of your KPIs should be measured using the TTM trailing methodology. You can also do three, six, and nine month trailing for comparison, but the variability will be greater and this will probably not be as accurate a forecaster. If you doubt the methodology, just compare it to a regular monthly chart and see which one gives you more information.

And please take heart here: anyone who knows a little bit about Excel can create these charts. In his book *CEO Tools: The Nuts-n-Bolts of Business for Every Manager's Success* Kraig Kramers gives very easy to understand, step-by-step instructions for creating your own trailing charts. Incidentally, if your Controller or Accountant can't create these for you, it's time to get a new finance person.





Key Performance Indicators (KPIs)

Like the instruments on your dashboard that tell you how various aspects of your car are functioning, KPIs signal how your business is performing in a particular area. Every business has KPIs, but you have to figure out which ones matter to your business and measure and monitor those over time. Figuring out your most critical, or "leading," KPIs is not always obvious. The way to know if you have chosen the right indicators is to ask these kinds of questions: Does this tell me what's going to happen over the next few months? Does it show me trends? In concert with your Financial Key Indicators, your leading KPIs should show you the direction your business is headed.

Leading Key Performance Indicators are the most important ones for you to track because they help you understand your present and predict your future. There are likely to be a few that

are key in your industry. You can do some basic research on your own to find out what these are, and your accountant or investors should also be able to give you suggestions. Remember too that each department will have its own departmental Key Indicators in addition to the company-wide Key Indicators. In thinking through your KPIs you may discover many that apply, but three to five should stand out as most important to your business.

Some examples of KPIs are:

- Returned products
- Scrap on a production line
- Errors per day, week, or month
- Injuries on the job
- Number of customer complaints
- On time vs. late shipments
- Time to delivery of product or service
- Redos
- Sales of new products during first twelve months
- Number of new products delivered to market each year
- Cost of new product development
- New products in top ten markets annually
- Accounts receivable
- Cash flow
- Customer satisfaction
- Dollars per sales representative
- Employee turnover
- Employee morale
- Expenses <%
- Gross Profit per day
- Inventories
- Labor costs compared to sales
- New orders
- Overhead vendor relations
- Productivity
- Utilization
- Working capital
- Book to bill ratio (new bookings to billed out orders or orders shipped)
- Income per employee
- Twelve month rolling ROA
- Month end inventory
- Backlog
- New accounts
- New stores opened

- Same store sales (year to year)
- Number of active customers
- Bid list
- Dollar volume of quotes
- Percent of success of bids
- Labor percent of product cost
- Write downs
- Working capital dollars and ratios
- Line of credit and line drawn
- AR over sixty days and average/day

See the end of this chapter for a sample form you can use to track which KPIs are most important for your company.

Once you've identified your KPIs, it's important to measure them over time and against a specific goal for that period. Also keep in mind that your KPIs are not static. You'll want to revisit which KPIs are giving you the information you need to make the best decisions to grow your business. Sometimes you'll find that a KPI doesn't actually tell you much or that it's redundant. If this is the case, ditch it and find a better indicator. Also, your KPIs can change as your business strategy changes. For instance, if you're having customer service issues, you might develop a more customer-centric approach to your Key Indicators. If you're focused on product development, you might have more key indicators around research and development or time to market for new products. So plan to revisit this exercise periodically. Your KPIs won't do you any good as a strategic tool if they're not measuring what's currently relevant to your company.

Budgets

Finally, you need to think about how you'll approach the budgeting process. Budgeting is essential because your budget is the roadmap that will help you get where you're going while tracking your progress along the way. A bank will not loan you money, nor should they, without a reasonably accurate forecast for the future.

To start, look at what you accomplished last year and project the growth rate you anticipate for the future. Your cost of goods, or selling costs, will rise proportionately as they are a percentage of sales. However, not all of your fixed expenses go up as a function of sales, so make sure you really understand how your expenses are likely to be affected by growth in sales. Again, if your accounting person cannot do this for you accurately, it's time to make a change.

Once you have your budget for the coming fiscal period, move the forecasts up and down to see what effect that has on your business. For instance, if you bring on some key people earlier, will that have a greater impact on sales than waiting and investing in infrastructure? Remember that the most successful businesses are the ones that best predict the future. Your budgets should be the most accurate predictions you can make, not wishful thinking. A good budget makes predicting easier.

Your budget is one of the key instruments on your Dashboard, so pay attention to what it's telling you. Most companies track budget to actual performance on a monthly basis. This allows you to

change direction early on if something is not tracking as you anticipated. Although I recommend keeping the budget for the fiscal period set in stone, I do recommend changing the "forecast" every quarter, or a couple of times a year, based on what's actually happening. This allows you to see how you have done against your original predictions and also to make course corrections as needed.

Creating Your Dashboard

Now that you've gotten a sense of the financial tracking tools available to you, learned how to identify your company's KPIs, and thought about a budget, it's time to pull it all together into a "dashboard" that works for your organization. To start, you'll want to identify which financial indicators you need to track regularly (monthly, quarterly, annually) and which KPIs are most important for your business. For the CEO Dashboard, you should only have five or six indicators that you look at daily, weekly, or monthly. Aside from sales and profit, you'll likely want to measure something that is key to your company's strategic objectives for the next couple of years. If one of your objectives is to launch products more quickly, you'll likely want to track time to market or number of new products to market. If you want to grow your business geographically, then you might want to track sales in new territories. If your business is a referral-based business then new referral sources will probably be a good key indicator. Literally, there are hundreds of things you could track; the key is to find the most measurable and predictive for your business, right now. Success is about having the right dashboard, the right indicators for your model of car.

Once you have your dashboard created, what next? Share! You don't need to bring everyone in, but at least your executive team or your management team should be involved. They should all know what their departmental key indicators are and how to manage them. Most companies that use dashboards effectively meet at least monthly, if not bimonthly to share the data. These financial check ins should take no more than thirty minutes, as everyone should know how to read the reports. The purpose of the meeting is simply to discuss course corrections or confirm that the strategy is on track. Once the team gets good at this, it might only take fifteen minutes for everyone to gain a good understanding of the company's health and what they can do to make improvements.

Preventing Fraud

Preventing fraud in your business is about making sure you have the right procedures in place. Always have multiple eyes on critical accounts, regardless of how big or small you are. Every day there are news stories about fraud at companies, regardless of size. Invariably, the fraud occurred because the checks and balances needed to prevent it were not in place. For example, a controller who writes all the checks and balances the bank statements can hide fraud. Not having separate functions for AP and AR can also open you up to fraud.

A CEO I worked with got a call one day from his credit card company. They wanted to know why so many refunds were going into a particular account. They were concerned because, historically, the company hardly ever did refunds. Worse yet, they had called multiple times, but had not been put through to the CEO. As it turned out, his assistant was processing refunds directly into her debit account. Over a two-year period, she deposited $200,000. The bank was only able to get through to the CEO when it did because the assistant happened to be out that day.

Even if you think you have good processes in place, have an outsider take a look and see if they can find cracks. Check with your accountant about doing an audit on your processes to find out where you are vulnerable and fix it. And, above all, do criminal background checks on anyone in finance. You just don't want to make it easy for employees to steal.

Open Book Management (OBM)

Open book management is the practice of teaching all your employees about financial management and how they can impact the company's financial picture. Some very large companies, Whole Foods for one, use this as a practice. Educating your employees about basic business finances can be beneficial to your employees and reap large rewards to your financial bottom line.

The big caveat here is that open book management must be done carefully and well. Remember that most people don't understand business finances and everyone carries their own personal beliefs about money. This combination of ignorance and opinion can be lethal if open book management is not implemented very carefully.

As a cautionary tale, we tried this in my company with very limited success. We had fifty employees and went about putting together a basic financial management class (it was quite similar in concept and material to this chapter). We split the participants into groups of ten, then conducted several classes over the course of six weeks to cover all the topics. The goal was to have the employees understand how the basic finances worked and how their job performance impacted the bottom line both positively and negatively.

Along with the education piece, we implemented a bonus structure (common with OBM), and gave everyone the goals of growing the business and making more money. We did grow and we did make more money, but not as much as my partner wanted and we missed one of the targets. So, rather than giving the employees the partial bonus they had earned, my partner decided we should give them nothing. I was a forty percent owner and, although I strongly disagreed as I felt that denying the partial bonus would undo all the work we had done, we didn't give out the bonus (the peril of minority ownership). As you might imagine, this had a very damaging effect on morale with the result that everyone felt OBM was a joke and that we were greedy owners. The negative fallout of this snowballed to all kinds of judgments about how we were running the business. The purpose of the OBM was to encourage employees to work together as teammates and partners in the business. Clearly we did not accomplish that.

Another conundrum I've seen at smaller businesses that use OBM is deciding exactly what information you want to make open. Do you want your employees to know salaries? What about discretionary expenses? Probably not.

If you decide to implement OBM, you need to decide up front:

- What will you make open?
- What will not be open?
- What are your goals for the project?
- Who will get trained and who will do the training?
- What will the bonus be?

- Will this be a project or an ongoing way of doing business?
- What are your expectations as an owner?
- If you have a board, what are its expectations?

Personally, after my experience, I would not recommend total OBM, but I do think that providing some basic financial knowledge about how the company works is a very good idea. With some basic financial understanding your employees really can help achieve the company's goals.

Financing

Getting a business loan is easy—if you already have all the money you need. If you don't, it can be next to impossible. This is why I tell all my clients, and anyone who will listen: borrow money when you don't need it, when the business is doing well. If you don't actually borrow, at least open up lines of credit you can tap into when you need to because the money will not be available when you need it most.

You only have to go as far back as the great recession of 2008 for proof. Great companies went out of business because banks would not lend them money, regardless of how long they'd been a good client. One large architectural firm was almost forced out of business because its original bank went under. No other bank would take the company in spite of the fact that they made money, had a huge book of business, and, by all banking standards, were a great customer. The firm was finally able to find a bank after being turned down by five, and only after their accounting firm intervened on their behalf. The ratios the new bank required were higher than normal and the interest rate wasn't great, but the company had no choice. Even though all the defaults were in real estate, small businesses took the brunt of those bad lending decisions. Those businesses that had stored up cash, or had quick access to it, were the winners.

There are also banks or hard moneylenders that essentially buy your receivables and pay you in advance. They take a large cut, and I absolutely do not recommend taking this route if it's at all possible to avoid. Doing this is like borrowing from a loan shark because the interest rate grows over time and you end up further in debt than when you started.

If you decide you need to take on debt, how much will depend on three things: your risk tolerance, your credit worthiness, and your business strategy. Know exactly what each of those is, and you'll make the right decisions when it comes to financing for your business.

Not to be overly blunt, but not understanding the concepts outlined in this chapter really amounts to business malpractice. If your financial person doesn't understand them, get someone who does. You do not need to know how to calculate the formulas or the reports I've outlined. But you do need to understand them so you can ask the right questions and make sound decisions. You'll never be able to accomplish your company's intentional purpose without an accurate dashboard that you read often. But, armed with your dashboard, you are far ahead of many entrepreneurial companies. Use this information to your benefit because, the sooner you know where your business is headed, the sooner you'll be able to make course corrections and take advantage of opportunities.

Mary E. Marshall, *Putting Together the Entrepreneurial Puzzle: The Ten Pieces Every Business Needs to Succeed* ©2014

Additional Resources

Key Indicator Summary

Name ____

Company ____

Date ______________________

Key Indicator	Year		
	20__	20__	20__ Adjusted YTD Rolling Average
Profit/Loss Indicators			
Revenue			
Cost of Sales			
Expenses			
Profit			
Cash Flow Indicators			
Accounts Receivable			
Accounts Payable			
Bank Line Tap			
Working Capital			
Inventory			
Operational Indicators			
Backlog			
Bid List			
% Success on Bids			
# of Competitors			
Market Share			
Liquidity Ratio			
Sales Indicators			
$/Rep.			
New Orders/Rep.			
# of Active Customers			
Appt./Close Rate			
Labor Costs to Sales			
Customer Satisfaction Indicators			
% On-Time Delivers			
Volume by Customer			
Turnover Rate			
Error Rate			
Returns/Rejects			
Complaints			
Productivity Indicators			
Hours/Project			
Customer Profitability			

Cash Flow Statement

For the Year Ending	12/31/11
Cash at Beginning of Year	15,700
Operations	
Cash receipts from customers	693,200
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	**147,900**
Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of invesment securities	
Net Cash Flow from Investing Activities	**(41,400)**
Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Increase in Cash	**(87,000)**
	19,500
Cash at End of Year	35,200

Financial Dashboard Checklist

- ❒ Identify the five to six most important Key Financial Indicators for your company.
- ❒ Decide which metrics you will track on your twelve month trailing charts.
- ❒ Identify the most important Key Performance Indicators for your company.
- ❒ Decide what your budgeting process will be.
- ❒ Describe how you will you make sure your executive team understands the Dashboard for the company.
- ❒ List where you think you might be vulnerable to fraud.
- ❒ Decide what you will change to safeguard against fraud.
- ❒ Decide what financing methods you will employ.

Recommended Reading

CEO Tools: The Nuts-n-Bolts of Business for every Manager's Success, Kraig Kramers, Gandy Dancer Press, 2002.

Make Your Move: Change the Way You Look At Your Business and Increase Your Bottom Line, Alan and Brian Beaulieu, Morgan James Publishing, 2010.

Managing By The Numbers: A Complete Guide to Understanding And Using Your Company's Financials, Chuck Kremer, Ron Rizzuto, and John Case, Basic Books, 2000.

Putting Together the Entrepreneurial Puzzle

The Ten Pieces Every Business Needs to Succeed

by Mary E. Marshall

The US has a long history of independent thinking, innovation, and creativity—a culture that is evident in an economy largely driven by small businesses and entrepreneurs. Yet, only about half of new businesses survive five years. Lack of practical knowledge about the basics of running a successful business is key. While entrepreneurs often have a dream for a service or product, many lack a comprehensive picture of what it takes to run a business. Given the precarious state of the economy and the significance of small business success, it's as important as it's ever been to support entrepreneurs in developing their practical business knowledge.

Over the course of a career working and consulting with entrepreneurs, Ms. Marshall has compiled a list of the ten most common problems that hamper small business success. *Putting Together the Entrepreneurial Puzzle* is comprised of ten interconnected but freestanding chapters addressing the fundamental areas of business every successful entrepreneur must be prepared to develop and manage. Each chapter takes a nuts-and-bolts approach and includes practical tools for building a successful business or correcting a struggling one:

- Real-life examples from Ms. Marshall's many years working with real entrepreneurs.
- Additional reading resources to increase breadth and depth of knowledge in specific areas.
- Sample worksheets, scripts, interview questions, etc.
- Checklists to help busy CEOs keep track of and accomplish tasks set out in each chapter.

Whether as a gift or a course text, *Putting Together the Entrepreneurial Puzzle* is a must-have reference for entrepreneurs at all stages of growing their businesses.

Available now from Amazon.com in print and Kindle formats.

Find out more about Mary Marshall's services
and follow her blog on leadership development and entrepreneurship:
www. mary-marshall.com.