***Financial information: what questions to ask***

In the first article in this section we looked at the 6 key areas of financial information. Information about profit (sales, costs and profit) and about cashflow (money in the bank, and money tied up in inventories and debtors).

Once we’ve highlighted the key information, we need to:

* identify what’s unusual or unexpected
* ask the right questions

**What’s unusual?**

“Unusual” areas could be where we’re worse – or better – than our expectations for the year(the budget), or our previous performance (last year’s figures). Or where the financial information contradicts what we know about the business.

It’s useful to focus on the year to date (YTD) performance rather than just the most recent month. So find the YTD column for actual performance and for the budget. There’ll probably be a “Variance” column as well, this is the difference between the actual and the budget.

For the 6 key areas, highlight where you’re better than budget, and where you’re worse. Then focus in on the biggest components of those areas. How are the 3 biggest costs doing against budget?

Next, find the YTD column for last year’s actual performance. Where are we beating last year’s performance, where are we performing worse than last year.

Finally, think about what you know about the business. Is this confirmed in the financial information? For example, if you know you despatched a record number of goods last month, is that reflected in the sales figure? And, presumably, in record production costs? If everyone was working overtime last month, is that reflected in the overtime cost? If there was no room to move in the warehouse, is that reflected in high inventory levels?

**Three questions**

Some people make the mistake of thinking that the financial information contains the answers. It doesn’t, it only asks questions.

Based on “the unusual or unexpected” that you’ve just identified, there are always 3 questions to ask:

1. What’s happened to cause this?
2. What are we doing about it?
3. What are the wider implications?

The first question will highlight the cause. If we don’t know why things have gone wrong we can’t put them right. Equally, if we don’t know why we’re doing better than expected, we can’t repeat it. Be prepared to dig a bit though, and make sure you get beyond the “usual suspect”. Be prepared to keep asking, “Yes, but why?” until you get down to the real reason

The second question will start to identify actions. We need to know who will do what (and perhaps how they’ll do it, and when) to put things right, or to keep things better than expected.

The final question is important too. There will be implications: on our staff; our customers; suppliers; other teams; etc. Who needs to know what, and how will we communicate it?

Whilst you’re asking these three questions, watch what’s going on. Many of the people who glazed over when ‘Finance’ was being discussed, start to engage once we’re talking about practical day to day operational issues.