***Habit 4 – Focus on the key numbers***

One of the problems with financial management is the quantity of numbers in any financial report. I worked with a group of directors whose monthly finance report was 16 pages long! Where do you start if you’re faced with that many numbers?

You start with the key numbers. In your report, a minority of the numbers will be key.

The first three important issues are:

* How much is coming in?
* How much are you spending?
* What’s the profit or loss?

These 3 questions are as true for a business as they are for our domestic finances. So get a highlighter, and highlight these 3 lines in your report.

Few businesses will have no income, but many cost centres won’t have an income, so you may not find this line on your cost centre report.

Next, look at your total costs. At Board level these could be divided into *Cost of Sales* (production costs) and *Overheads* (the cost of HR; IT; Finance; Sales & Marketing and the other service departments). In a cost centre they could be divided into *direct costs* (those costs you are responsible for) and *indirect costs* (other departments’ costs that are allocated to you).

Then look for your profit or loss. Are you making money or losing money? If you have no income in your cost centre, you’ll have no profit, so don’t be surprised if you don’t find this line!

If you’re looking at figures for the company, you’ll see a *gross profit* as well as a *profit before tax*. The gross profit is the production or service delivery efficiency of your business, the profit before tax is the “bottom line”.

What are your five biggest costs? Make sure you look at these individually. If you’re on top of the big numbers, the little ones don’t matter so much.

The next 3 key issues relate to cashflow:

* How much money do you have?
* How much is in inventories (stocks and WIP)?
* How much do your debtors owe?

These questions won’t apply to everyone. But they are related: the higher your inventories and debtors are, the less money you’ll have in the business bank account.

You’ll have fewer than a dozen key numbers in your report – that’s much more manageable. You need to be on top of these numbers if you’re going to be stay on top of your financial targets.

And those directors I mentioned at the start? At the end of the day I spent with them, the Finance Director said “16 pages is too long isn’t it?” They nodded. He asked “How about a single page?” They answered “How about half a page?”

They were right, the key numbers should fit onto half a page.

What are your key numbers?