



Scaling New Heights

2014

San Antonio, Texas

# Financial Fluency for Your Clients

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Business Intuitive**

# What we'll cover:

- Elevate the financial acumen of your clients
- Teach financial concepts in terminology that clients understand
- Use The Profit Equation™ Planner to help clients make the connection between activities and outcomes.

# Financial and Business Fluency

Presented by:  
Insert your name

# Today's Objectives

- To understand the basics of financial and business statements
- To understand the link between business activities and financial outcomes
- Learn how The Profit Equation<sup>SM</sup> ties it all together
- To apply these principals in your company

# Definitions

- Fluency: to speak and understand the language
- Financial Fluency: understanding your company's financial language.
- Business Fluency: understanding your company's business language.

# Why be fluent?

- When traveling abroad, it's the difference between seeing the city through the eyes of the tour guide and discovering the city through your own eyes.
- In business, it's the difference between seeing the company through someone else's eyes and seeing it through your own eyes. Especially when it comes to understanding how your efforts impact the company.

# What is a business?

# A business is made up of:





# Financial View

If you want to measure outcomes  
the focus is on:

**Revenue – Expenses = Profit**

(Lagging Indicators)

# Business View

If you want to influence outcomes  
the focus needs to be on:

**People X Process = Profit**

(Leading/Predictive Indicators)

# The Company Must Make a Profit:

- For Employees to have a job.
- For Customers to have goods and services to buy.
- For Owners and Shareholders to get a return on their investment.

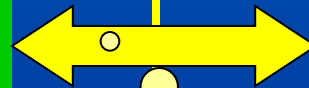
# Two Views on Profit

- Financial View is reflected in Financial Statements

- Business View is reflected in Business Statements

Financial  
Outcomes

Business  
Drivers



Today we will  
look at how  
these are linked

# The Financial View

## Financial Statement Basics

# Three End Goals

1. To sell our goods and services for more than it costs us to provide them.
2. To get a return on our investment.
3. To maintain a healthy cash flow to keep the company running.

# Three Goals = Three Statements

1. To sell our goods and services for more than it costs us to provide them.

Income Statement

2. To get a return on our investment.

Balance Sheet

3. To maintain a healthy cash flow to keep the company running.

Cash Statement

# Basic Financial Equations

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

## Income Statement

Reflects activities  
over a period of  
time

1 month  
1 quarter  
1 year

## Balance Sheet

A snap shot of  
the financial  
position of the  
company at a  
particular point  
in time



# Basic Financial Definitions

Profit =  
Revenue – Expenses

Equity =  
Assets – Liabilities

## Income Statement

Revenues = how much \$  
we bring in

Expenses = how much \$ we  
spend

Profit = what \$ is left over

## Balance Sheet

Assets = the \$ value of  
what we have

Liabilities = the \$ amount  
we owe

Equity = remaining \$ value  
left over

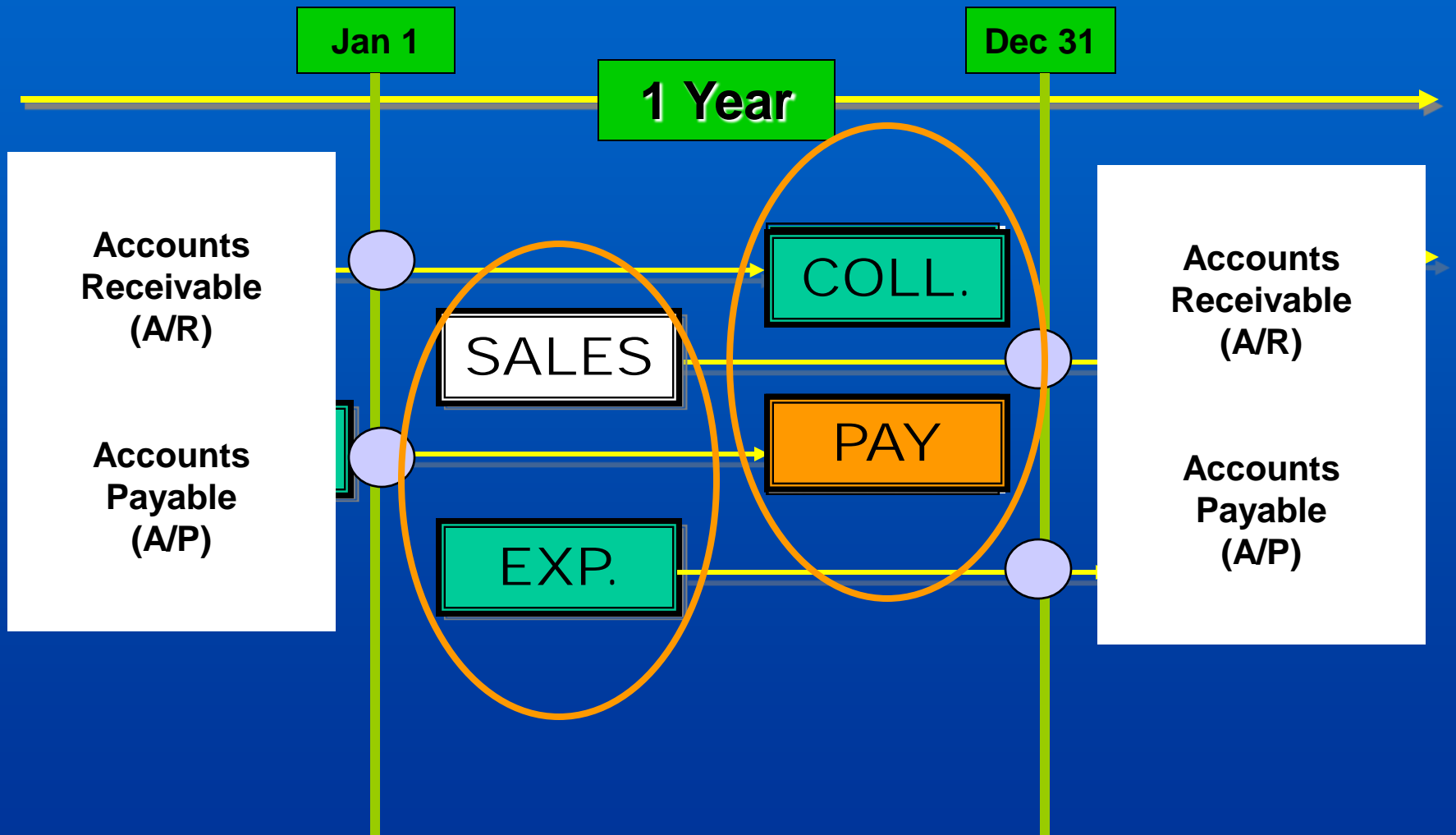
# Cash Statement Link



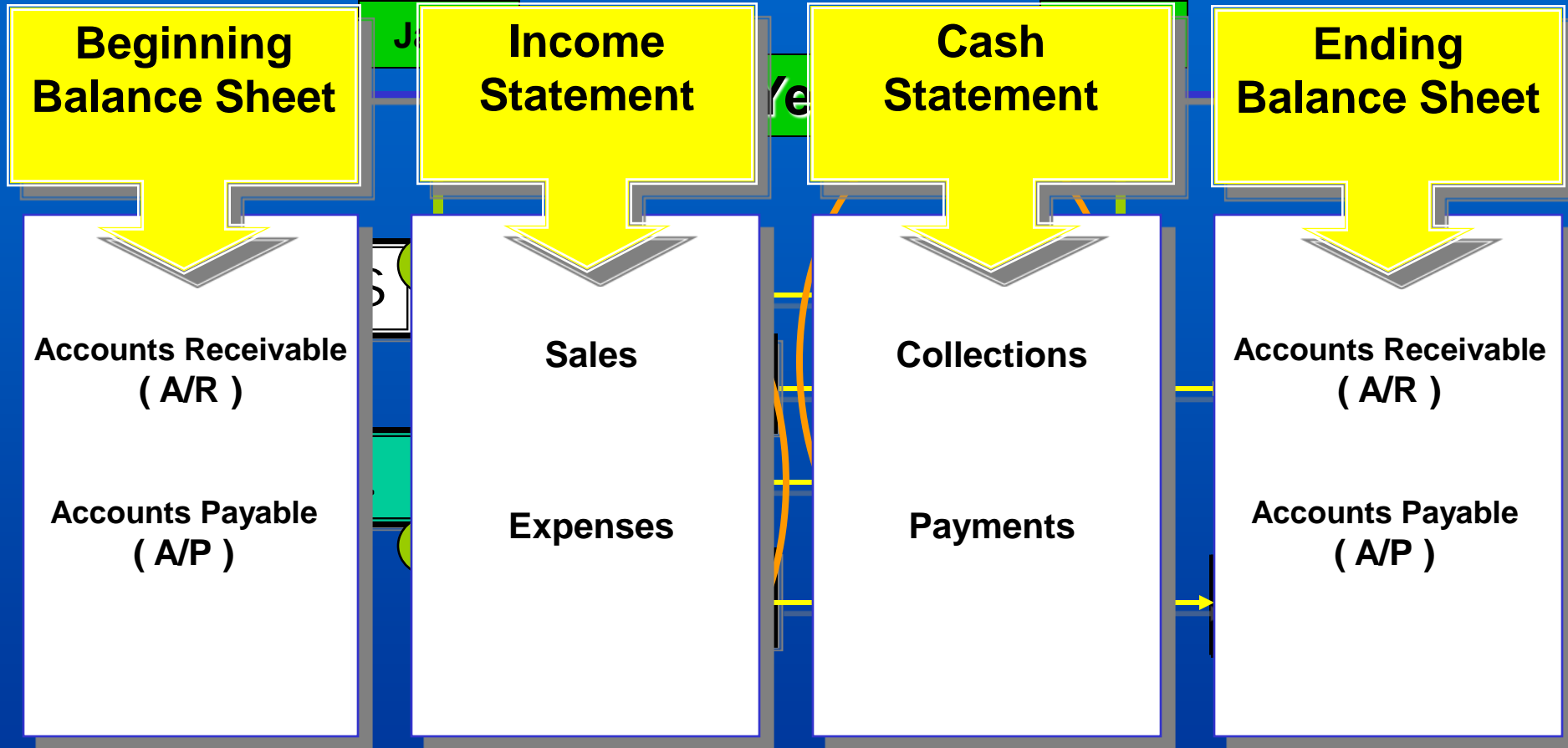
The Cash Statement provides the link between the Balance Sheet and Income Statement



# Transactions

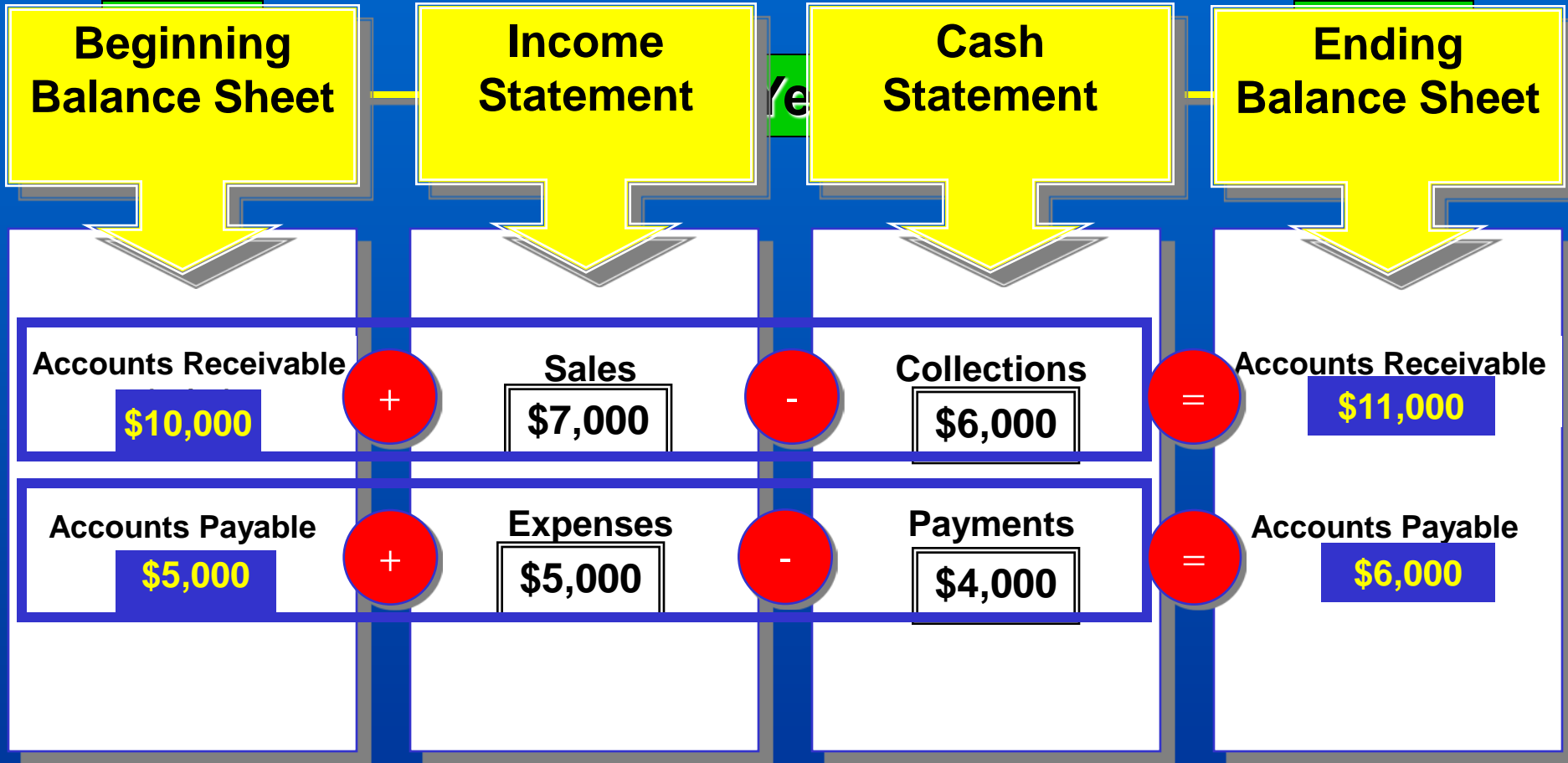


# Transactions

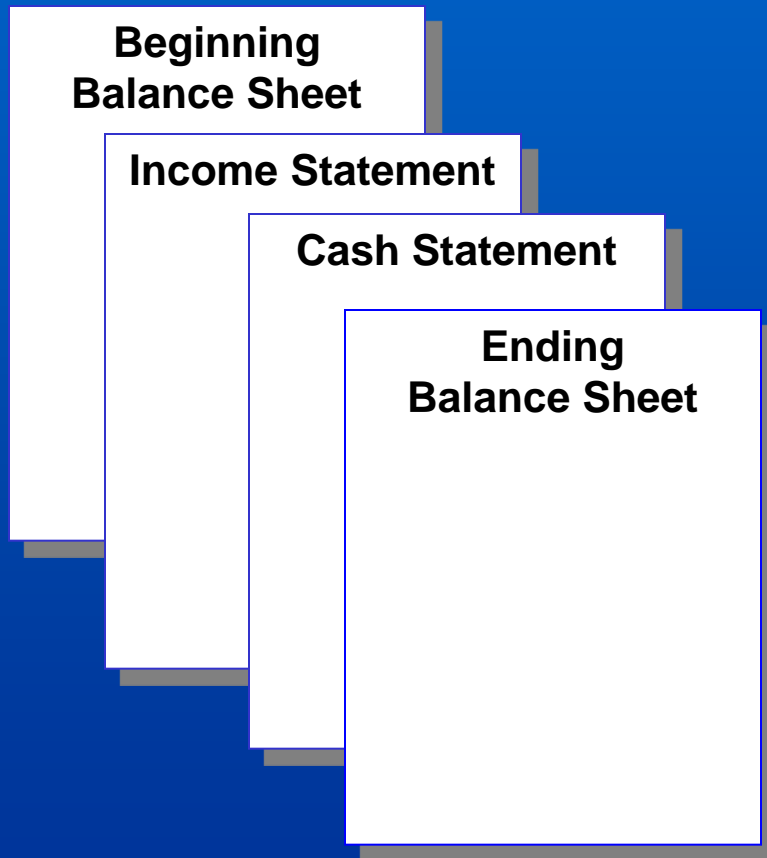


There are three types of information

# Transactions



# Financial Statements



**Financial Statements  
are a reflection of your  
company's history.**

# Three Financial Statements

## Three Bottom Lines:

1. Income Statement > Net Profit
2. Balance Sheet Statement > Return on Assets
3. Cash Statement > Operating Cash Flow



# Question:

- Is it possible to make a profit and not have any cash?
- Is it possible to make a profit and not get a good return on investment?
- Is it possible to have cash without making a profit?

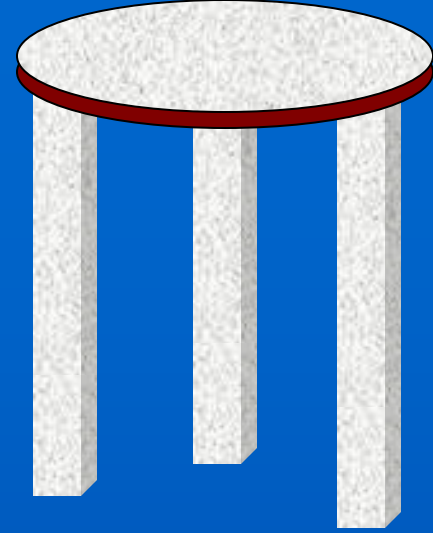
# Three Legged Stool



Answer:

- Yes to all three, but not for very long. It's like sitting on a stool with three legs of different lengths.
- The long-term health of the company requires that all three legs of the stool be equally balanced.

How can we make sure  
that all the legs are in  
balance?



# Financial – Historical Focus

$$\text{Revenue} - \text{Expenses} = \underline{\text{Profit}}$$

Outcome

Lagging Indicators

We've looked at the past, now  
let's look at the future . . .

# Business – Future Focus

**People X Process = Profit**

Activity

Leading/Predictive Indicators

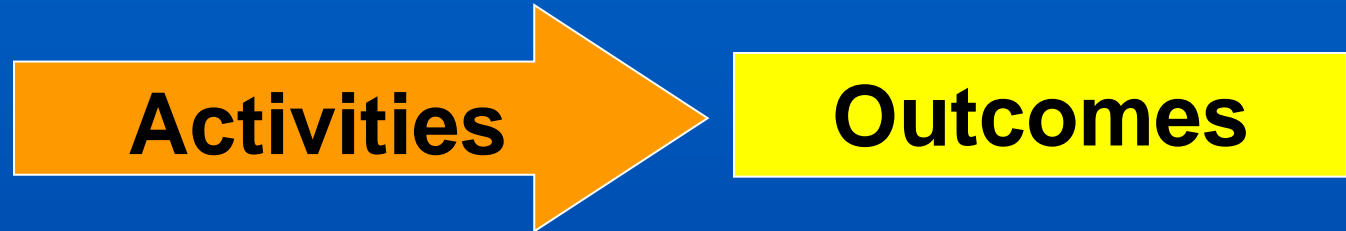
# The Business View

Once again, a business is  
made up of:



**In other words, a company is made up of various people performing various activities each day. The goal is to measure, manage, and leverage those activities on a real-time basis.**

# Activities Drive Outcomes



Understanding the  
relationship between these  
two perspectives is  
what we call  
The Profit Equation<sup>sm</sup>



# Our goal is to leverage both sides of The Profit Equation<sup>SM</sup>

## Activities

# of Customers

X

Frequency

X

Average Sale (\$)

X

Efficiency

## Outcomes

Revenues -

Cost of Goods  
(COG's)

=

Gross Profit less  
(Gross Margin %)

Overhead (OH)

= Net Profit



Which side of the equation traditionally gets more attention?

How do we leverage these activities?



# Moments of Truth

by Jan Carlzon

The goal is not to make one thing 1000% better. It is to take a 1000 little things and make them 1% better.

# Difference in Perspectives

Financial Statements:	Business Statements:
Outcome Focused	Activity Focused
Historical Reports	Real-time Reporting
Lagging Indicators	Leading Indicators
Capture Transactions	Measure the Activities that Drive Transactions
Financial View	Financial <u>and</u> non-Financial View
It's all about the \$\$\$\$	It's all about the #####

# Take Away Tools

- Financial Fluency ppt
- Profit Equation Revenue Planner

# Session Wrap-up

- Financial and Business Fluency should be our primary goal
- Teach them to speak the language of *their* business
- Create line of sight ownership
- Natural bridge from accounting skills to advisory skills

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Your questions?

My question: What will  
you take away from this  
session?