Reading the Story

Part Two · How the numbers fit together — and what they're trying to tell you

Part One gave you the vocabulary. This guide gives you comprehension — because a P&L, like a sentence, means nothing word by word. Meaning lives in the relationships: margin against revenue, cash against profit, overheads against growth.

By the end of this guide you will be able to pick up a monthly management pack and, in about fifteen minutes, know what actually happened — and, more importantly, recognise the recurring patterns that show up in almost every growing business, including the one where a profitable business feels permanently poor.

Nothing here requires calculation on your part. Every number discussed is one your accountant or bookkeeper already produces, or can produce in an afternoon. Your job is not arithmetic; it is interpretation.

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01

Reading a management pack in fifteen minutes

A monthly pack can be two pages or twenty. Ignore the volume — the reading order is always the same, and it is not top-to-bottom. Read in order of what can kill you:

- **First, cash.** Bank balance now, versus last month, versus this time last year. Direction and trajectory before anything else — a business dies of cash long before it dies of anything on the P&L.
- **Second, revenue — against the right comparators.** This month versus budget tells you about planning accuracy. This month versus the same month last year tells you about the business. Most businesses have seasonality, so "versus last month" is usually the least useful comparison in the pack — and the one people instinctively make.
- **Third, gross margin percentage.** Not gross profit in pounds — the percentage. Pounds can rise while the percentage falls, which means you are buying growth with margin. That trade can be deliberate; it should never be accidental.
- **Fourth, overheads versus the same month last year.** One question: did the cost of existing grow faster than the business?
- **Fifth, debtor days.** Rising debtor days is tomorrow's cash problem announcing itself early. It is the single best early-warning number in the pack.

Fifteen minutes, five checks, in that order. Everything else in the pack is detail in service of those five.

Budget vs actual vs forecast

What it means: Budget: what you planned at the start of the year. Actual: what happened. Forecast: what you now expect, knowing what you know. "Variance" is simply the gap between plan and reality.

How to use it: The mature question is never "why did we miss budget?" — budgets are guesses that age badly. It is "what is the forecast now, and what changed our mind?" A business that quietly re-forecasts and can explain why is being run; a business still comparing itself to January's guess in October is being narrated.

02

Ratios — the numbers that only mean something together

A ratio is just two numbers in a relationship, and the relationship is where the truth is. Four earn a permanent place in your head:

Gross margin % and operating margin %

What it means: Gross margin: what percentage of each pound of sales survives delivering the work. Operating margin: what percentage survives everything except interest and tax (this is EBITDA as a percentage of revenue).

How to use it: Two uses. Trend: is each moving up or down over four or more quarters? And benchmark: your accountant can tell you the typical range for your sector in minutes — ask. Being five points below sector norm is a finding; not knowing the norm is a choice.

Worked example: *A £4m business at 35% gross margin has £1.4m a year to pay for everything else. At 30%, £1.2m. That five-point drift — barely visible month to month — is £200k a year, quietly gone.*

Revenue per employee

What it means: Total revenue divided by total headcount — the crudest and most honest productivity measure there is.

How to use it: Watch it across years. If revenue grew 20% but headcount grew 35%, the business got bigger and less efficient at the same time — almost always a sign that people were added to compensate for structure that was never designed. This number is where organisational problems first become visible in financial form.

Breakeven point

What it means: The monthly revenue at which the business covers all its costs — below it you lose money, above it you make it. Your accountant can calculate it in ten minutes; every owner should know it roughly.

How to use it: Two gifts. Comfort: knowing you break even at £240k and typically bill £320k converts vague financial anxiety into a measured margin of safety. And decision-power: every proposed overhead — a hire, an office, a system — can be translated into "this raises our breakeven by £8k a month; are we confident clearing it?" That one sentence makes spending discussions rational.

Overheads as a percentage of revenue

What it means: The cost of existing, relative to the size of the business.

How to use it: The single clearest signal of "structure grew without design." If this percentage has crept from 22% to 31% over three years while revenue stayed flat, the business is carrying an organisation built for the company it hoped to become, paid for by the company it still is.

03

The cash conversion cycle — where the money hides

Every business has a rhythm: money goes out (wages, stock, suppliers) before money comes in (customers pay). The cash conversion cycle is the length of that gap in days — how long each pound is trapped in the machine before it comes back.

It is built from three numbers you now know: how long stock or work-in-progress sits before it is sold, plus how long customers take to pay you (debtor days), minus how long you take to pay suppliers (creditor days).

Why this deserves its own section: it is the most powerful set of levers most owners have never consciously pulled. Invoice on delivery instead of month-end, take deposits, tighten terms for new clients, negotiate longer supplier terms — each of these releases cash permanently, without a single new sale. A business that shortens its cycle by twenty days on £4m of revenue frees roughly £220k of cash — once, and then keeps it freed. Compare that with how much selling it would take to bank the same amount, and you can see why finance people get animated about it.

The pattern to internalise: when a growing business feels permanently short of cash despite decent profits, the cash is almost never "gone." It is sitting in the cycle — in unbilled work, uninvoiced deliveries and unchased invoices. The fix is operational discipline, not sales heroics.

04

The balance sheet — one page, honestly

The P&L is a video of the period; the balance sheet is a photograph of one day — what the business owns, what it owes, and what would be left over. Most owners never look at it. You need about one page of it:

- **Assets:** what the business owns or is owed — cash, debtors, stock, equipment.
- **Liabilities:** what it owes — suppliers, loans, tax due, and often a director's loan account (money the owner has put in or drawn out — worth knowing which way yours points, and it is a completely normal question to ask).
- **Equity (retained earnings):** the accumulated profits left in the business over its lifetime. This is what people mean by a "strong balance sheet" — a cushion of kept profit that lets the business absorb a bad quarter, fund growth without borrowing, and negotiate from strength.

One habit: glance at the balance sheet quarterly and ask a single question — "is the cushion growing or shrinking?" A business whose P&L looks fine but whose equity is flat or falling is consuming itself, usually through drawings outpacing profit. That is a conversation to have with your accountant early, not late.

05

Five patterns that tell a story

Individual numbers inform; patterns diagnose. These five signatures account for most of what monthly packs are trying to say to the owners who read them:

- **Profitable but permanently poor.** Decent profits, tight bank account. Story: growth is eating working capital, and the cash is trapped in the conversion cycle. Response: operational — billing, terms, chasing — not more sales.
- **Flat revenue, rising overheads.** The scissors pattern — the lines converge until profit is cut. Story: structure grew by accretion while the market position stood still. Response: structural, and it rarely fixes itself, because every individual cost had a good reason.
- **Growing revenue, falling margin percentage.** Story: the business is buying growth — discounting to win, or over-servicing to keep. Sometimes a legitimate land-grab; lethal when it is unconscious. Response: pricing and scope discipline before volume.
- **Revenue concentration.** One customer is 40% of the business. The P&L looks healthy; the risk sits silently in one relationship — and it suppresses valuation for exactly that reason. Response: name it, then make diversification a deliberate priority rather than a hope.
- **The founder-shaped funnel.** Every large deal, every key renewal, every pricing decision passes through one person. This pattern hides in otherwise healthy numbers and reveals itself in their fragility — what happens to next year's revenue if that person takes three months off? It is the pattern the other four often trace back to.

Notice what these five have in common: not one of them is solved with better arithmetic. Each is a structural or behavioural pattern wearing financial clothing — which is precisely why fluency matters. The numbers tell you where to look; they almost never contain the answer.

06

An exercise — fifteen minutes with your own pack

Take your most recent management accounts (or year-end, if that is what exists) and answer, in rough numbers:

- Cash today versus a year ago — and can you explain the difference in one sentence?
- Revenue and gross margin % versus the same period last year — which direction is each moving?
- Overheads as a rough % of revenue — and versus three years ago?
- Your approximate monthly breakeven — and if you don't know, will you ask your accountant this week?
- Which of the five patterns above, honestly, is closest to your business?

If you can answer four of the five, you are reading the story. Most owners — including very successful ones — cannot, yet. That is the gap this series closes.

Where Part Three takes you

You can now read what happened. Part Three, "Asking the Questions," is about what happens next — forecasts, spending decisions, funding, and value — and the specific questions that let you lead those conversations without being the finance expert in the room.

Because that is the destination of this series: not knowing every answer, but owning the questions. The expert in the room has the answers. The leader in the room decides which questions get asked — and that, it turns out, is the more powerful seat.

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