The Language

Part One · The words themselves — without the jargon, and without the shame

A quiet truth first: a remarkable number of successful founders and directors privately feel they “should” understand the numbers better than they do. They built the business on product knowledge, relationships and sheer graft — and somewhere along the way, the financial language became something to nod along to rather than genuinely follow.

If that is you, two things. First, you are in the majority, not the minority — it is simply rarely admitted. Second, the fix is smaller than you think. You do not need to become a finance director; you employ or engage people for that. You need to be fluent enough to follow the conversation, ask one sharp question, and never feel you have to bluff.

This is the first of three short guides. Part One gives you the words. Part Two shows you how the numbers fit together to tell a story. Part Three turns fluency into authority — the questions that make you the sharpest non-financial person in any room.

One rule before we start: “talk me through how you calculate that here” is always a respectable sentence — in any meeting, with any advisor. Every business calculates these things slightly differently, so asking is a sign of rigour, not ignorance.

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01

The Profit & Loss — "how are we doing?"

The P&L (profit and loss statement) answers one question: over a period, did the business make money? It runs top to bottom — sales at the top, costs subtracted in layers, profit at the bottom. The layers each have names, and the names are where most of the jargon lives.

Revenue (also: turnover, sales, "the top line")

In plain English: The total money earned from customers in the period, before any costs are taken off.

Why it matters: The most useful thing about revenue isn't the number — it's the direction. Growing, flat, or shrinking, and over how long? Three flat years tells you something one good month cannot.

Gross profit and gross margin

In plain English: Revenue minus the direct costs of delivering your product or service — materials, direct labour, subcontractors. As a percentage of revenue, it is called gross margin.

Why it matters: This tells you whether the thing you sell makes money before overheads. A quietly falling margin usually means underpricing or over-servicing — the business working harder for less. If revenue is flat and margin is slipping, that combination deserves attention before anything else.

Overheads (operating expenses, "fixed costs")

In plain English: The costs of existing rather than delivering: rent, admin salaries, software, insurance, marketing.

Why it matters: The pattern to watch: overheads growing faster than revenue. It usually means the business added people and cost without adding design — structure grew by accretion, not intention.

EBITDA

In plain English: Earnings Before Interest, Tax, Depreciation and Amortisation — in plain terms, the operating profit of your business before financing choices, tax, and accounting adjustments for assets wearing out. Pronounced "ee-bit-dah."

Why it matters: It is the SME world's favourite measure of underlying performance, and the number most business valuations are built on. A useful mental translation: "the engine's output, ignoring how the car was financed." You never need to calculate it — your accountant does that. You just need to know what it means when someone quotes it, because someone will.

In practice: *"They're doing about six hundred K EBITDA on four million turnover" means: the underlying engine produces £600k a year — a 15% operating margin, which is respectable for most sectors.*

Net profit ("the bottom line")

In plain English: What is left after everything — all costs, interest and tax.

Why it matters: If EBITDA looks healthy but net profit looks thin, the gap is usually loan repayments or heavy investment. Neither is automatically bad — but you should know which one is eating the difference.

Management accounts vs statutory accounts

In plain English: Statutory accounts are the formal annual accounts filed at Companies House — backward-looking, and often nine months out of date by the time they're filed. Management accounts are the internal monthly or quarterly pack — P&L, cash position, key numbers — used to actually steer the business.

Why it matters: Here is an uncomfortable but common truth: many £1m–£5m businesses have no management accounts at all, and are effectively driving by looking in the rear-view mirror. If that is your business, asking your accountant for a simple monthly pack is one of the highest-value requests you can make — and they will be pleased you asked.

02

Cash — “can we breathe?”

The single most important idea in this whole guide: profit and cash are not the same thing. A business can be profitable on paper and still run out of money, because profit counts work when it is invoiced — but cash only arrives when customers actually pay. Most business failures are cash failures, not profit failures.

Cash flow

In plain English: The actual movement of money in and out of the bank account.

Why it matters: Cash pressure changes how you lead — it shortens your time horizon, makes you hold decisions closer, and crowds out thinking about anything structural. If month-end payroll regularly makes you sweat, that is worth fixing before almost anything else, because it quietly degrades every other decision you make.

Working capital

In plain English: The money tied up in simply running the business day to day — roughly: what customers owe you, plus stock, minus what you owe suppliers.

Why it matters: Growth eats working capital. More sales means more money owed to you before it lands — which is why fast-growing businesses often feel poorer than flat ones. If growth is making you feel more stretched, not less, this is usually why, and it is normal.

Debtors, creditors, and debtor days

In plain English: Debtors: customers who owe you money. Creditors: suppliers you owe. Debtor days: how long, on average, customers take to pay you.

Why it matters: If your payment terms say 30 days and your debtor days are 75, your customers are borrowing from you interest-free — usually because chasing feels awkward or sits with someone who has no authority to push. It is one of the most common, most fixable cash problems in owner-managed businesses.

Runway

In plain English: How many months the business could survive at current spending if income stopped or stayed flat.

Why it matters: Mostly a stress-test question worth asking yourself once a year: if our biggest client left tomorrow, how long would we have to respond? The answer changes how much risk you can sensibly take.

03

Value and exit — “what is it all for?”

Even if selling feels a decade away — or you never intend to sell — it is worth understanding how businesses are valued, because the things that make a business valuable are the same things that make it less exhausting to run.

Valuation multiple (“a multiple of EBITDA”)

In plain English: Small businesses are typically valued as EBITDA times a number — commonly somewhere between three and six for owner-managed firms, higher for larger businesses or those with recurring revenue. £500k EBITDA at a 4x multiple suggests a £2m business.

Why it matters: Here is the part that matters even if you never sell: businesses that depend heavily on their founder attract lower multiples — because a buyer isn't buying an asset, they're buying a job. Founder-dependency isn't just tiring; it directly suppresses what your business is worth. Every decision that can happen without you adds value twice: to your week, and to your eventual exit.

Key-person risk

In plain English: The business's exposure to one individual — very often the owner — whose absence would materially damage it.

Why it matters: A blunt self-test: could the business run for four weeks without you? Not "survive" — run. If the honest answer is no, it is worth knowing exactly where it would stop first, because that is where the risk is concentrated.

Succession and exit-readiness

In plain English: Preparing a business to be run — and eventually owned — by someone other than the current owner. Your accountant may mention related tools like EMI schemes (tax-efficient share options used to retain key managers).

Why it matters: Exit-readiness is really just management strength by another name. The work of building a leadership team that can genuinely run the business is identical whether you sell in three years, ten, or never — the only difference is who benefits.

Recurring vs one-off revenue

In plain English: Revenue that repeats automatically — contracts, retainers, subscriptions — versus revenue that must be re-won every time.

Why it matters: Recurring revenue raises valuations and lowers stress. One question worth sitting with: what proportion of next year's revenue is already contractually likely? And a harder one: how much of the new business only happens because you personally win it?

04

People and structure — where the numbers come from

Financial results are downstream of structure: who does what, how decisions flow, and whether your senior people are in the right seats. A few terms from that world:

Span of control

In plain English: How many people report directly to one manager.

Why it matters: Above roughly seven or eight direct reports, the quality of management attention degrades — for anyone, however capable. Many MDs of growing businesses are quietly carrying twelve or more, and experience it as personal overwhelm rather than what it actually is: a structural choice that can be changed.

Operating model

In plain English: How the business actually works: who does what, how decisions get made, how work flows from order to delivery. Different from the org chart, which only shows who reports to whom.

Why it matters: Most businesses have an org chart; few have ever looked at their operating model. The gap between the two — how things are supposed to work versus how they actually work — is where most growth problems hide.

Cost of a mis-hire

In plain English: The full cost of hiring the wrong senior person: salary, recruitment fees, lost momentum, team damage — commonly estimated at one to two times annual salary, more for leadership roles.

Why it matters: Worth holding in mind whenever a hire is proposed as the solution to a problem. Sometimes it is. But a £70k hire into an unclear role costs £100k+ to get wrong — which makes an honest look at the structure first very cheap by comparison.

Utilisation (for service businesses)

In plain English: The percentage of your paid staff time that is actually billed to clients.

Why it matters: If you run an agency, consultancy or professional firm, this one number drives the whole P&L. Small improvements in utilisation usually beat new sales for speed of impact — the capacity is already paid for.

05

The five numbers to know about your own business

You could track fifty things. Don't. If you can answer these five — roughly, and with their direction of travel — you understand your business better than most owners understand theirs:

- **Revenue,** and whether it has grown, flattened or shrunk over the last three years.
- **Gross margin,** and which way it is moving.
- **EBITDA,** roughly — the underlying engine output.
- **Cash comfort** — honestly: is month-end tight or fine?
- **Debtor days** versus your stated payment terms.

Direction beats precision every time. "Is margin moving up or down?" is a leader's question; the second decimal place is your accountant's job.

Three questions worth taking to your next accountant meeting:

- "Can we set up a simple monthly management pack — just P&L, cash position and debtor days?"
- "What do our debtor days look like against our payment terms?"
- "If someone valued this business today, what would help the multiple most?"

Where Part Two takes you

You now have the words — which means you can follow any conversation about your business's numbers without translating under pressure.

Part Two, "Reading the Story," goes a level deeper: how the numbers relate to each other, how to read a monthly management pack in fifteen minutes, and the five patterns that show up again and again in growing businesses — including the one where a profitable business feels permanently poor.

Financial fluency is not what makes a business grow — it is what lets you see clearly enough to work on what does. In my experience the numbers are usually the symptom; the causes live in structure, leadership capacity, and alignment. But you cannot have an honest conversation about causes while quietly hoping nobody asks you about the symptoms. Now they can ask.

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