

Module 20 Lesson 2

Transcript

All right, so you have your business set up correctly. You have all your legal documents in order and you know the scope of practice in which you can work. So the only thing left to cover is all things money. They don't really teach you how to run a business in school, at least if you went to school for anything related to nutrition and wellness. So we're going to teach you the basic financial knowledge you need here to get you up and running properly.

Now as you know, like I said, I wasn't a lawyer, I'm also not a bookkeeper or an accountant. So again, I'm going straight to an expert to help teach you how to keep your records straight and your cash flow positive. We're going to cover how to best track your expenses and pay your bills, something super important, best practices to send invoices and collect money from clients, again, super important. And things you should consider when it comes time for tax season. And finally we'll share some of our fav resources and technologies that will make your life Oh so much easier, and help you maintain a healthy financial outlook for your business. Enjoy the lesson.

Hello everyone. My name is Mark Whirling. I am a partner in the accounting finance practice of Marathon CFO. Carrie has asked me to share some of my insights into some of the most critical pieces for running the financial and accounting side for business here today.

One of the things I really can't emphasize enough is that it's super, super important that you or someone on your team understands and manages their business based on hard metrics and what is actually happening in your business.

As an accountant, I rely heavily on the three core financial statements. One is the balance sheet. The second is the P and L. And the third, of course, is cashflow.

Most of us understand the profit and loss or income statement the best. That one tracks your revenue minus your expenses for whether or not you're making a paper profits each month. Revenue, of course, is super important no matter what your business is. The higher that goes, the stronger your business generally is. It's definitely important to be mindful and tracking all of the components of that by source, by person, against whatever metric is appropriate for your business. And be super careful to also track returns or discounts that may be offset against your sales.

It's really important to understand the difference between the gross sales, which is what people buy and the net sales, which is what you actually collect.

Then as you work down the expenses, make sure that you're very, very diligent for your fixed costs. Fixed costs are the monthly utilities, the monthly rent, payroll. Variable costs, things like marketing, things like sponsorships, extra headcount, contractors, anything that has variable component to it. And the difference there is, of course, your net income and the higher that is the better and there's a lot of different metrics and benchmarks that are important to track there.

The balance sheet can be very important as well. Understanding what your cash balance is. Accounts receivable inventory, if that's appropriate, are all big components of the asset side of the balance sheet. While on the liability side we're looking at things like payroll, things that are accrued over time. Maybe there's a timing difference. Your payrolls, always wanted to stay as current as possible there. And were these two are blended together is on the cash flow statement.

The cash flow statement is often overlooked, but in my opinion is always has the truest measure of the strength of your business. The cashflow can be very, very informative and can really indicate how strong the business is and needs to be forecasted out, especially if you have a business that has any type of seasonality to it. If you have higher sell through, higher enrollments in different parts of the year to make sure that you're forecasting that out and managing what the net bottom line cash will be at any point during the year.

Sometimes there can be a large gap between when a service is performed and when you actually can collect that and there can also be timing differences between when you have to make a large expense and when the event may occur. For example, if you do two or three big events per year, you may be receiving the cash well in advance of that event and you need to make sure that you spend that wisely and have enough of a margin there for investing in that activity itself and it's on hand when the event actually occurs.

I can't stress it enough that having a understanding of these three statements is super, super critical, especially as you are ramping a business and looking forward to grow.

If this isn't your strength, then I would certainly encourage you to find a support for that. Often you can manage it yourself as you're growing or have someone on your team that has some affinity for it or sophistication help you with managing the books and reconciling cash, generating the systems and generating your monthly reports. Super critical to be doing this timely, to be doing it consistently, to do it throughout the year and to never fall too far behind. When done well, the information can be elite, can give you all sorts of insight into your business and many, many levels of insight and leading edge on how you can adjust on the flock to generate better and stronger results.

As your business matures, outsourcing that can often make sense. There's lower-level bookkeepers, people that can help you keep current and can advise you as you focus more and more on driving your business, creating content, driving the top line. As the business continues to scale even further, you may need to hire that role internally or to find more sophisticated experts outside. I would definitely look for people that tend to have a CPA backgrounds, experience in the field, multiple clients in that area or some specialty that can help you with your growth.

Definitely we're seeing more and more clients moving into driving their business through eCommerce or websites or Stripe or square payments. We refer to these as non traditional banks. Helpful to have people that have a high background and affinity or exposure to eCommerce and all the ways that these systems, these electronic systems, websites interact and how you have to grow a business with these types of platforms.

Software tools are getting stronger and stronger and I would definitely encourage you to invest in these early in your business. So the scale and the history is maintained. QuickBooks online is an excellent, excellent program. Another competitor to QuickBooks that's also doing very well is one called Xero. That is Xero, X-E-R-O. So Xero with an X and Bill.com does an excellent job of managing the payable function, it's basically an AP module, but it also handles the AR side as well.

Scaling your business. You'll see more and more of businesses these days or definitely e-commerce directly or have a flavor for it. You'll always need a credit card processor to authorize the charges and begin recording those Auth.net or authorized.net is one of the strongest that works in gaps during that data. MINDBODY online is another popular platform for the health and wellness space and I see many, many clients running on the backbone of those clients.

I think as you grow as an entrepreneur, the biggest challenge for any of these companies is really working capital and how do you manage working capital. As you grow, it is more and more expensive to grow a business and to bring it to the next level. And the rule of thumb is the expenses are always coming in faster than the revenue was growing. So making sure that you're properly financed and you're properly capitalized so that your working capital is always available is one of the strongest differentiators between those entrepreneurs that succeed and those that stall or fail.

A working capital is essentially your liquid cash that's available and you need to make sure that you have a cash strategy and some reserves for growing the business.

AR, accounts receivable, AR, it's not always this predictable, not always a hundred percent collectible, but you'll see on the AP side, the counts payable side, that vendors are very good at collecting from you, much more so than you can be collecting from others.

And things generally are more expensive than we forecast and sales and raising top line generally proves to be harder than we anticipate, so it's always important to be thinking a few steps down the chess board on where will you have extra dry powder, where can you find extra levels of funding or financing? Many entrepreneurs, you're starting out bootstrapping the business. You're growing because you're not paying yourself, you're paying others, but maybe not yourself. You're certainly paying yourself likely below market rates early on and the key is to scale through that and to grow through that as fast as possible. Often outside investors can help. Maybe that's friends, family, maybe that's angel investors. Maybe that's something as simple as a crowdfunding source or using the savings from before you started. Conversions of stocks, equity savings, different things like that. Always good to keep some in reserve for the rainy day or this environment, for macro economic events like the current coronavirus, really important.

You can also use a credit cards for funding. A relationship with the bank term loan or line of credit. A term loan is essentially where you start with a large balance and pay it down over time, similar to a home equity line or an auto loan. A line of credit can be very helpful, where the bank allows you to borrow on a fluctuating basis. Lines of credits are very, very, very helpful when you have short term cashflow needs that allow for adjusting around seasonality. Or short term borrowing needs.

Credit card companies, you can take loans against your credit cards. We're seeing more and more of a revenue based financing or merchant based financing, where once you've established a relationship with your credit card company or Shopify or PayPal or any of these different intermediaries between your customer and you, when they have enough data and enough history, it'll run your numbers through a algorithm, which is essentially a way of quickly calculating some different ratios that should find the appropriate amount of funding for you, that can advance cash early. And then as subsequent sales are run through that merchant or a third party, they take a cut of that in order to repay themselves, but that's a really fastly emerging way for financing and is replacing some of the more traditional banks.

I always tell my clients that you need to maintain a minimum cash balance and to always be planning for the worst case scenarios and modeling out your business. The closer you are to the numbers, the higher your likelihood of success will be. And being very, very diligent on and intentional with each of the numbers, each of the sales targets, each of the discounts, each of the

refunds, how to drive those, how to increase those, how to influence those will be the true art, meaning science that will play out on the finances.

And then being very, very diligent on the expenses and understanding what the return on those are and which ones drive most the most sales and the most throughput. And then just being very, very, very intentional and delaying and deferring as many of the fixed are hard costs as you possibly can.

I can't stress it enough that a good roadmap, a good business plan, strong numbers and diligent reviewing and understanding your business, financial aid will be a enormous, enormous indicator on whether or not you're successful with your business and how fast you can achieve your vision and your dreams and execute to the highest and best potential, as you bring your message and your product to the marketplace and see your dreams and visions come through.

If you have any extra questions, I'd be happy to provide my contact information and be a resource for you in future. Thank you so much. Thank you, Carrie, for this opportunity. I hope you found that very, very helpful. Thank you.