

Hey there, and welcome back to another episode of the Locally Grown podcast. I am your host, Theresa Cantley, and I wanted to talk today about everybody's favorite topic. Everybody's favorite topic, but also everybody's topic that they hate to talk about, and that's money.

And I want to talk about it from the standpoint of, I mean, we all want to make money, right? I want to talk about from the standpoint of how to manage it in your business, how to look at things in your business to make sure that you are making money. I mean, yes, the ultimate goal of business is to make money. Everybody wants to make money, right? We wouldn't be in businesses if we weren't making money. But it shouldn't be the main focus, because I always tell people, you need to have a deeper purpose besides just making money in your business. However, however, what I have found is that most business owners don't know what goes into their numbers to understand whether or not they're making money.

A lot of business owners that I have spoken to over the years manage their business by what is physically in their bank account. And we don't want to do that, because that's not an accurate picture of whether or not your business is profitable or whether or not you're making money, because you could have many bills that are outstanding, and having cleared your bank account, and the money that's in your bank account is not a clear idea as to exactly how much you have. So, I wanted to give you just some key things to think about as we are closing down or closing out 2022 and going into 2023. I want to give you some key things to think about as you are looking at planning.

And if you're not looking at planning for what you want to do in the next year or two or three, I highly recommend that you start creating a plan as far as the activities that you want to do, where you want to go, what you want to do, and who you need on your team. So, I wanted to talk, and if you don't know, I have a free guide that is coming out, a free training, it's an audio file, an audio download with a worksheet, and it is called Seven key things that you need to implement now to have the most profitable year yet in your business. So, you can go to [theresacantley.com/profit](https://theresacantley.com/profit) to go ahead and download that file, and that will help you get started on the seven things that you need to do, including your strategic plan.

But for right now, I wanted to just talk about, because I've had a lot of conversations with business owners recently, just because of the time of year and what I do, and the thing that just always blows my mind is the amount of people that don't really understand where they really are financially and what's going on. So many people just rely on, "Well, my accountant just does it." Well, that's great, but many times over, I think more times than I've ever seen it not this way, more times I have seen it where the accountant isn't doing what they're supposed to do and the numbers aren't looking the way that they're supposed to look like, and there are gaps in things missing and then who pays for it? The business owner.

And hey, I'm not immune to this, because I've been there myself with not paying attention, and I pay attention and I look at things and I do all the things that I'm about ready to tell you, because that's ultimately what's going to help us grow our business. We can't stick our head in the sand like an ostrich and pretend that these things don't exist. Like I said, everybody likes to talk about money, but everybody also hates talking about money, because we all want to make money, but we don't want to put in the work and do the things that we need to do to make sure that we are indeed making money.

So, the first thing is, and I'm not going to get heavy duty into budgets and forecasts, I mean, that's a couple episodes in itself, but clearly just super simple, we're just keeping it simple just to get started. And I'm hoping that after this episode that you are not one of those people that says, "Oh, I'm not good with numbers." I hear that a lot. "I'm not good with numbers, I don't understand QuickBooks, so I just let my bookkeeper do it."

After this episode, I'm hoping that you are not one of those people, because back in the day, and I'm talking about in the way back machine, I remember I used to hate to even balance my checkbook. And I remember having a... It's actually in high school, they taught you, I guess, I don't know, how to manage your finances and it was like a life skills class or whatever. I don't even know, but I remember her saying, "You always need to understand where your money is." Always need to understand where your money is and what's happening with it so that you can make better decisions.

Once I got into corporate America and I was an executive assistant, my boss used to always say, "You always need to know where your money is. You always need to know where your cash is at all times, so that you can make better decisions." Well, that's what I'm telling you right now. You always need to know where your money is, where your money's coming from, and how much you're spending so that you can make better decisions.

I've talked about it on the podcast before, how you have different seasons in your business and the seasons flow very similar to how the seasons in the planet go, okay? So, if you are constantly in one season, you're going to have problems. Even if you're constantly in two seasons, you're still going to have some problems. It is just the way that things flow, that you are always going to be functioning in one of four seasons. You have a cash heavy, cash flow season. You have a season when you don't have a whole lot of cash flow and you have very little coming in, which is the time that you want to reflect and kind of figure out which way you want to go.

Then you have a season where you start planning a lot of projects and starting to implement all those things that you came up with during your reflection phase, and cash flow is kind of medium at that point, and then you have your season where you have your cash flow is starting to build, starting to grow, starting to get heavier and the projects that you planned and started to implement are really starting to get into full force. So, those are kind of the four different seasons.

And you have to understand, because every business is different. I mean, even if you're in the same industry, every business is different. Honestly, I have never seen two businesses that are the same. I don't care what anybody says, and I don't know, maybe that's just my opinion, but every business is different.

Two restaurants are never the same either, or two retail stores or whatever, but you want to understand when those seasons are, because you don't want to be one of those business owners where you're just functioning in spend, spend, spend, spend, spend, and you're constantly just, as soon as the bill is due, you just spend the money, but you have no idea what's happening on the other end and you have no idea what part of the month you have a lot of expenses that you need to pay.

So, you need to understand what your seasons are, as well as, you also need to understand what activities you do in those seasons, okay? So that is one of the key things, is to go back and take a look at, and I always have my clients kind of plot out, all right, take the last four years or last three years, and I know 2020 kind of skewed everybody, but take the last four years and just plot out month by month by month what your total revenue was, so we can start to get a gauge as far as what your seasons are.

And you can do that in revenue, you can also do it in expenses, so you can say what were your expenses every month? Again, to try and see if you can get a trend as far as what your seasons are in your business for cash, but also, what are your seasons for expenses, all right? Sometimes they line up and sometimes they don't, but you get a good feeling for what activities you need to do and when, instead of just kind of aim in the dark, which a lot of people do, which is why a lot of businesses go under. That's the first piece, is understand your seasons.

Second piece is, understand your income. Where is your income coming from? Top line revenue, where is it coming from? I had a client that I recently had a conversation with where they were getting income

from a product stream, from a product line, and it was never being recorded. How crazy is that? So, every month, you should be looking at a profit and loss statement, you can also look at a balance sheet, you can look at a cash flow statement, but on your profit and loss, you're going to see where your income is, so you better understand where all that income is coming from, and it should be up to date, all right?

And if it's not up to date, guess what? You got to get it up to date to make sure that you understand where your income streams are, all right? You also need to make sure that you have your costs, so your income and your costs are in there, and that your costs are right. Some businesses get their cost of goods based on when they purchase something. The restaurant industry is classic for this. So, when they purchase something, those costs go into the system, into the cost of goods, and then they can measure it against the sales. Retail, a lot of times the cost of goods comes from when a product is received into the system and that product has a specific cost attached to it, so when the product sells, the product has a cost of goods associated with an income.

I have a client who is in the tutoring business and in his business, his cost of goods, the way that we were looking at things is dependent on what it takes to run the tutoring program, so he's got different variables in there. But bottom line is, you need to understand your cost and you need to make sure that they're right, because guess what is going to be number two? So number one is, make sure you understand your income streams and make sure that income is up to date in the system and is going into your accounting software, whether it's QuickBooks or something else, and your cost of goods. Make sure you understand where your cost of goods comes from, your costs, not expenses, where your costs come from, okay?

Number two, once you have those two things, you want to understand what your profit is, what your gross profit is and understand what really your gross profit should be. In the retail world, it can be anywhere from 50% to 65%, okay? In the restaurant industry it's higher. In other industries, it might be different, but you want to understand what is your gross profit? Sales minus cost of goods, what does that look like, because then that is going to help you to understand the next piece of it. So, sales minus cost of goods, you have an amount left over, which is what you use for operating your business.

But we want to understand what your profit is, right? And when we understand what your profit is, obviously if your profit's too low, either your costs are too high, or you also want to say, "Oh, well, maybe my prices aren't set right?" Never, ever look at what someone else, a competitor, and say, "Well, I can't put my prices up, because this person's not charging that." Never, ever, ever do that, because they may have made a pricing mistake on their stuff. And if you say, "Well, I can't do it, because they did it, because this is the way that they're doing it," you might be taking the mistake that they made and making it in your own business.

So, looking at your sales, your revenue, and your cost to understand what your profit is. Right now, costs are high, shipping is high. And that's the other thing, you want to make sure that you have, and I've seen a lot of retail stores make this mistake, but you want to have a line item for shipping income, which is what you charge a customer, but then you also want to have a line item for shipping cost, which is what you are charged. You should be making money on shipping. That should be an income stream.

A lot of people make that mistake where they charge the same amount, whatever they get charged, they charge that amount to the customer. What they don't realize is there's additional costs in there, packaging and your time and all kinds of stuff, all right? So we want to make sure that we have that set up correctly. So, looking at our revenue, our costs, and looking at our profit to see where is our profit coming from? Where are we not profitable, but also where are we most profitable?

I just did this activity with a client of mine and we said, "Oh, they have six different income streams, three of which are way less profitable than the other three." And that gives us a better gauge of, "Do we let them go?" Do we say, "You know what, we're going to get rid of these profit buckets, or do we keep them and what do we need to do to revamp them to make them better?" So, it helps us to make better decisions as far as what we need to do.

So, the next piece is looking at our expenses. So, looking at all of our operating expenses, so our gross profit, the money we have left over after we take out our cost of goods, then that enables us to look at how much money do we have to operate the business with all of our general administration operating expenses. So, we look at all of those expenses and we get a clear picture as far as what do the expenses look like? You can also get a clear idea as far as, are you expense heavy in the beginning of the month, or are you expense heavy at the end of the month? Or maybe there is no trend. Versus is your revenue higher at the beginning of the month, higher at the end of the month? Or again, is there no trend?

But trying to figure out what that is, because that enables you to then manage your cash flow. And cash flow is what's coming in, what's going out, clear as that, all right? And managing, "Okay, how much time do we have to pay these bills and what do we need to do to bring in more revenue so we can pay more bills?" All right? The last thing that we want to happen, or the thing that we don't want to happen is we don't want to be spending more than we make. I know it sounds very, very simple, but you would be surprised as to how many people don't pay attention and at the end of the day, they're like, "Why don't I have any money in my bank account?" But when they look at their financial statement, well, the reason why is because you're spending way more money than what you're actually bringing in, so that your net income is negative.

So, the clearer we are as far as what are we spending money on, what are our expenses, so we can understand at the end of the day, how much money do we have left over in the business? Now, looking at our expenses, are we spending money on silly stuff? Are we spending money on things that we're not using? Are we overspending on utilities? I know utilities are crazy high right now, but utilities and credit card fees and is it possible for us to consolidate credit cards to pay one off to transfer balances, so that we don't have all of these credit card expenses? Looking at all of these things to get a clear picture of, where are we spending money that we don't need to spend money?

Except people, we can evaluate people in a totally different way, but when it comes to people, we need to have people to help us to build our vision to help us to run the business. We need to do marketing to make sure that we are consistently being visible no matter what's happening in the economy, and no matter what's happening in our industry, so we consistently need to keep ourselves out there. But when it comes to other expenses, there are different things that we can do if we have the knowledge and if we also take the time to look at these things.

So, all of this together will give us a clear picture on the health of our business and what we need to do to make sure that we are consistently operating with positive cash flow. So, let's review. Number one, we want to get a clear idea as what are our income streams and what are our costs, our costs of goods, all right? Number two is, what does our gross profit look like? Are our costs really high, do we need to increase our prices? Are we charging for shipping?

Then we want to get a clear handle on what are our expenses? Are we spending money in places that we shouldn't be spending money? Or are we overspending? Are we spending money on things that we don't use? What does that look like? And then from there, we can also take a look at what is our net income look like, because that will help us to manage our cash flow, cash coming in, cash going out, all right? It is as simple as that. We can get much more complex with budgets and forecasting, and that's going to be another episode, but for right now, I want you to go back and look at your books and if you don't have access to your books, get access. If you've never looked at them, look at them.

Maybe you don't have a relationship with your accountant, get a relationship or get a different accountant or book an appointment with me. Book a call with me for through my virtual coffee, and let's take a look at what you got going on, so maybe we can get some clarity around what's happening and what you need to do next. But just getting a handle on where is your money going, where is it coming from, and where is it going and what can you start to do to make sure that you are consistently in positive cash flow, that you have money that you can then set aside for an emergency fund, or set aside to bonus your employees or set aside to give yourself a bonus or reinvest back in the business, better equipment or better technology or benefits or whatever that looks like, but you got to understand what's happening. You have to know where your money is, so that you can make better decisions.

And my hope is, and I said this in the beginning of the episode, that after this episode, after listening to this, you are not one of those people that says, "I'm not very good with numbers," because you need to be good with numbers. You don't have to be this finance expert or whatever, but you need to understand where stuff is going. You need to understand where stuff is coming from, so that you can make the right decisions in your business so that you can keep it moving forward and you don't go backwards, especially now.

And the more you do this, the more you have a really good handle on things, no matter what happens in the economy, you're always going to be able to gracefully pivot and make the decisions that you need to make without cutting anything in your business, because you'll have stuff set up, you'll have a handle on when things are coming in and when things are going out, and you'll be able to be a more confident business leader, not just for you, but for your team, and for the vision of your business.

So, I hope this helped you and until next time, have a great rest of your week, and let's all take care of each other just a little bit more than we already do. Oh, and by the way, don't forget to download my free training. It's an audio training with a file download called the seven key things that you want to implement in your business now to have the most profitable year yet. You won't regret it, it's a good listen. All right, take care.