MAKE 2019
YOUR BEST YEAR EVER!

More Money

It's What Local Businesses Need

And That's What They'll Have, Once They

Get Back to Money Bacics

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Getting Back to Money Basics

“Measurement is the first step that leads to control and eventually to improvement. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.“
H. James Harrington

The goal of every local business is to generate enough revenue to turn a profit. As a local business you may not be able to do as fortune 500 companies do and hire the best and brightest the world has to offer to help them make this money, but regardless of the size or scope of your business the same basic accounting principles apply.

Taking just a bit of time to become familiar with some of the most common business terms will allow one to begin to understand how money is made in a business and how it can be tracked, increased or lost.

Several of the most important distinctions or definitions to become familiar with include the differences between costs and profits; the importance of properly gathering and interpreting quality data; learning to build and read a profit-and-loss statement; and the value of using projections to boost revenue. Taking the time to understand how money is made within a business can add thousands to your bottom-line profits.

What You Spend VS what you Actually Make After the Sale – It’s your Costs VS Profits

The words cost, and profit could not be more different. In fact, one word blatantly takes from the other. When accountants refer to the word costs they are referring to the expenses that are paid to develop, produce, and ultimately sell a product or service.

This is where I see so many local businesses miss the mark, owners must know their numbers. To get the accurate cost of doing business it is important to follow proper accounting principles by correcting adding the labor involved in developing a product; the price of the material and labor to produce it; and the dollar amount it takes to bring the product or service to market. If any relevant cost is overlooked or left out it will be impossible to determine exactly how the company is performing.

Alternately the term profit refers to the money that is earned by the company after it has paid all of the costs. To really understand how money (profit) is made we must learn one more term: revenue.

Revenue is the total sum received for the product or service. Let's say ABC Bike Sales buys a bike from the manufacturer for $100 and they sell it for $150 in their bike shop. Their cost is $100, their revenue is $150, and their profit is $50 less fixed costs . Here you can see that not all the money received for the sale of the bike is considered profit.

There is still the matter of the cost of the bike. Of course, the profits will shrink further after adding the portion of costs for this item of having the bike shop itself, the lights, employee costs, insurance, and a portion of all the fixed and variable costs your business has.

Oftentimes the words gross, and net are used to describe the money before costs are subtracted, and the money after costs are subtracted. Gross profit is before expenses, net is what you have left. Think of pre-costs as being grossly exaggerated and the post-cost as what you caught in your net.

With so many accounting principles at play it is easy to see why so many local businesses mis-price their products and services. I've even encountered a business who called his competitors, got their prices for services and set his process just a bit lower than his competitor.

There's so much wrong with that, for example how does he know if the competitor is pricing his jobs correctly. His fixed costs are likely different and selling based on lowest price is not a smart option. It's unsustainable.

Knowing the difference between costs and profits can make all the difference when it comes to understanding how money is made and lost within a business.

What are Data and Analytics and Why are they Important?

Data is simply information that can be collected and interpreted by you or key personal to help make decisions based on fact. Data can show important metrics such as how much volume was sold on a particular day in previous years; what part of the year is most productive; or even what products or services sell best during which times or seasons.

Data is also a useful tool to track and monitor inventory levels for loss and shrinkage. Access to this valuable data requires good record-keeping so that it is possible to look back at the performance of the company on any given day and time in the past.

Analytics goes hand in hand with data, in fact data is necessary before an analysis can be made. Analytics is the process of interpreting the data that is available to you. By comparing current numbers to those of previous years it is possible to measure how much you company has grown, or not.

Company data tells you how well you are serving your current customers, your customer retention rate, how many new customers you have compared to last year, and how many of the sales are new versus repeat sales.

Internal company information, or data, should be treated as an asset that can be used to give you a competitive advantage in the marketplace. To gauge if business is on track to be more profitable this year, it is important to know how the company performed last year, what the strengths were and where you fell short.

Data and analytics are strong tools in an owner’s arsenal of tools and should be leveraged as much as possible to drive sales, monitor growth, and reduce or eliminate losses.

A Profit and Loss Statement: What is it and Why is it Important

A profit and loss statement is also known as an income sheet and is a crucial summary of where your company stands financially. It is a detailed report that works in conjunction with the cash-flow and balance sheets to paint an accurate picture of the overall health of your business and is typically created every fiscal year or quarter.

The profit and loss statement, also known as a P & L sheet, is a very structured document that follows a set of universal accounting principles so that anyone with a basic understanding of business terms can easily read it. As a complete picture it shows a snapshot of the revenue, costs and company expenses that were recorded for the preceding period.

This statement can help you to see if your business is making profits from your revenue. It also works to expose weaknesses in the various departments within your company and gives you the opportunity to plug the leak of hard-earned profits. A profit and loss statement create a path for accountability and allows owners to track the spending and costs within different departments.

One last little bonus that comes from reporting accurate, consistent P & L sheets is that they help to determine gross and net profits and the operating margin and ratios to paint a clearer picture which helps you to make better data driven decisions.

What are Projections and Why are they Important

Projections are essentially educated guesses. They are to businesses what forecasts are to weather. By using a profit-and-loss statement alongside a balance sheet one can make very accurate projections about what is going to happen.

In business, being prepared is the single greatest advantage to overcoming adverse situations, the act of reviewing your business in detail will expose areas that need attention and shine light on those that are working the way they were meant to. Projections allow you to take your mission statement and turn it into real, measurable milestones that all work to help achieve your goal.

All industries experience ups and downs at different times, local business is feeling the crunch of the Internet and knowing when something will affect your business, and to what extent, can be the difference between handling it successfully and falling victim to it.

Imagine having a crystal ball that would warn you before a downturn in the market, or that there will be a run on a particular product next month. Knowing this information ahead of time will allow you to plan for the slow times or to make a larger order so you don't miss any sales.

Data and analytics can have this effect and make it possible to make similar projections for your business. It is generally agreed that foresight is better than hindsight; however, a business can use their past data to help them to measure if and by how much Internet e-commerce sites and Big Box Chains are affecting their businesses in time to make the necessary shifts.

Be Proactive and Take Control of your Company's Money

Successful Owners Know Their Numbers - Understanding how money is made is not a quick study but with a little bit of effort and some devotion to the cause anyone can learn to master the process of checks and balances.

Using all the tools at your disposal and getting high quality data is the resounding message here, and anything less would certainly bring inaccurate results. Of course, you can have all the data in the world but if it isn't analyzed correctly it will be of little value to anyone.

Understanding how money is made within a business depends on understanding how costs are assumed; how revenue is earned; and what profits remain when all the bills have been paid.

If knowledge is power, then being able to make accurate projections relating to your business should be considered a very powerful tool indeed.

Taking a proactive approach to knowing where the money is going in your business is the key to lowering costs, increasing sales and turning a profit. By looking at past performance levels, revenues, and losses, and then correctly interpreting what they mean for the future, you can be armed with the tools needed to make accurate business decisions based on the numbers.

Know your business numbers

Dan Kennedy taught me that knowing your numbers helps you cut your losers faster and run your winners harder; to make more sales and profits. If you don't measure it, you can't improve it. Tracking and measuring holds every dollar you spend accountable to return a profit.

To accurately track and measure your marketing and advertising, you simply must know these numbers: Your cost to acquire a lead, how many leads it takes to get a customer, your cost to acquire a customer and the lifetime value of your customer.

If you know that for every $10 you spend you make $100, your only logical move would be to spend as many $10s that you could afford.

Stop limiting and foolishly budgeting what brings in the sales and profits. Spend as much as you can to generate leads wisely. And then as they say… Follow-up consistently, until they either, buy or die!

The next time you decide to tune into reality TV, flip to CNBC and watch Billion Dollar Buyer, it is a reality show that's both entertaining and educational, and must-see TV for local owners.

Each episode features Tilman Fertitta, CEO of Landry's Inc. where promising entrepreneurs pitch their businesses to Fertitta, one of America's most successful billionaire business moguls whose companies boasts a two Billion dollar a year buying budget. From casinos to chains of restaurants from seafood to steaks across America.

There's something to be said about knowing your numbers, we can all take priceless advice from this self-made business mogul. Fertitta touts in the opening of each episode, "Ask me anything about my business, anything, and I'll know it all!"