

# Connections B2B Module # 2

## We start with the end in mind

### What does “Good” look like?

In this module I want to fast forward to a place where you have a fantastic accounting helping you find hidden profits in your business a system that show you what “good” looks like.

If you had the perfect accounting system working in your business, how would you know? You might first think that is a money question, you’d have more money, but not necessarily. My experience has taught me that most want more money, but in reality the biggest quest is to get rid of stress, fear, frustration and overwhelm.

What is your first thought when we talk about accounts? Tax? Forecasting, budgeting? I know this stuff inside out and trust me, given the choice to hang out with friends and family v’s updating my books or forecasting, even I choose the former!

But for most, all this accounting is highly stressful and often the simple solution is “To do nothing”, because:

1. It might go away? - Will it will if you eventually go bust, you won't have a business to worry about!
2. That’s what I pay my accountant to do - Even if your accountant is your spouse you should still know what’s going on and show a regular interest and above all question everything so you are filled with confidence
3. I don’t need to budget, it's’ all in my head - Of course it is, we all think about our businesses a lot, but if you don’t share your thoughts with someone, and to do that you need reports, how can you possibly know if you are right? If you are always right and know what you're doing, then why are you here reading this?

Therefore “GOOD” suggests you need a system and with that system comes a process, and both must be robust and consistent. From capturing data in the first place, to recording and checking its validity, to then turning data into useful meaningful reports, regularly.

What if you also had a budget and forecast that mapped out your future, kind of like a set of drawings an architect would do for your new home. Your whole business and financial future written down and all you need to do is follow your plan.

If you could then take what you have mapped out for the future and test it regularly against what has actually happened today, you would surely soon see valuable insights in to how you can improve tomorrow.

But more importantly, how would you feel? The stress, fear and overwhelm of running a business won’t always disappear, but it will certainly be manageable, and generally your focus will turn to solving problems and not fire fighting routine matters concerning your numbers.

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## Predicting the future - Your crystal balls

So far we have identified that bookkeeping is recording the transactions and accounting is reporting on those transaction. Budgets and forecasting is all part of planning and really is no more than bookkeeping and accounting in the future.

The data you capture within your bookkeeping is allocated by category or as the profession refers to them “Nominal Account Headings” These nominal headings compromise titles such as Sales, Purchases, and all your overhead running expenses, like motor expenses, telephone stationery, wages etc. Then there are Assets and Liability nominal aheadings, like Fixed assets, Debtors and Creditor control accounts VAT and PAYE etc

These nominal headings are often bespoke to you, despite the fact there will be an obvious familiarity from one business to the next.

Each of these nominal headings recording what you have done can be used to predict exactly what the future should look like.

As an example if your sales last year was £120,000 and you sold £10,000 every month, what do you want next year to look like? £180,000 and £15,000 each month?

Your budget and forecast can tell you this.

So what?

Well, most entrepreneur type people often see the future through “Rose Tinted spectacles” They want sales and more importantly profits to grow, they have a certain expectation and they enjoy the chase. But there is often a “LAG” between expectations and reality.

Using our example, how does Sales suddenly jump from £10,000 a month to £15,000 consistently? What has to happen and will there be a delay between the marketing efforts and the actual cash being banked? Probably...

So if you are smart you will have some sort of projections and plan for your future and it will be written down. We'll cover more in future modules.

## Where Accounting and Marketing meet in perfect harmony

One of the biggest lessons I learnt in my career was to connect accounting to marketing. I can tell you based on fact based evidence, most marketing people know nothing about accounting and have very poor accounting systems and I can also tell you that most accountants have very poor knowledge of marketing and it's not uncommon for accountants to say cut the marketing spend!

Here is what I know to be true. If you set in place a financial budget and forecast for your business, you will need to compare that to the actual financial performance of your business for it to make any real sense.

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Once you have looked at your actual to budget comparison, you will soon realise that the expenditure side of the business can either be quickly controlled or there is little you can change, after all if you need a phone, stationery and electricity there is little you can do to reduce the cost by anything specific, you get my point?

Which will then lead you to one main figure you can and will have influence over and that figure is your future Sales.

To make more money, you need more Sales or less Costs and if costs are controlled, more Sales is the only option and to gain more Sales, you are going to need to know and understand the whole subject marketing and sales, but when it comes to the crunch, you are also going to need to understand the impact of running adverts and marketing campaigns and how they will turn into sales invoices and ultimately cash and how long that will take to turn into excess cash that you can take for your next holiday, new car or new home and that is often where there is "LAG" I referred to earlier.

That "LAG" can be better understood in your budget and forecast and if you really are running a good system, you can utilise your budget and forecast tool to help you seek out hidden profits and less LAG in your cash flow.

It's just about understanding your numbers. You already have all the data, you probably just don't have a robust system to capture it all and give you back meaningful information.

And then if you understand your Sales, you will soon start to understand your customer journey. Which could start from choosing where to place an advert or booking a trade stand or attending a networking event.

If you don't understand your customer journey, how can you plan future sales targets and how can you possibly know what to write in your advert or even where to place your advert.

## Cash is King, don't run out of the stuff

I have had people in the past explain to me in great detail how they are not in business for the money, which is bollocks!

Even if you run a charity, you need money to pay for the basics even if the labour is all free, it's how it works and if you really do want to be a philanthropist, guess what?

You need money to do that.

So if you are in business and think the money isn't important, then, please take a very close hard look at what you are doing. Sure money may not be a motivator, but don't kid yourself it's not an important component to running a business.

I've also had people express their opinions when a business owner goes bankrupt, or a business goes into liquidation and they set up again the very next day.

It's a fact that happens and it's probably way more times than you realise, 1,000's of businesses go bust each and every month and one of the biggest reasons is that they run out of money.

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For sure there will be lots of 'sob stories', from my customer didn't pay me to the economy, Brexit and many other excuse, but the reality is they run out of money and can't pay their bills.

If you have a customer who doesn't pay you, or your business runs out of money - it's your fault, you let it happen.

But, if you have a proper accounting systems, budgets and plans there is still no guarantee that you still won't run out of money, but the risk is diminished rapidly and more importantly your decision making each day will be based on hard evidence, facts and figures you know and design yourself, rather than what most do, which is - "wing it"

Part of knowing what "Good Looks Like" is that you will have an accounting system in your business which will include budgeting, forecasting and planning. If you really smart you will connect this up with your customer journey and really dig deep into every part of the analysis, which in turn will either give you massive confidence in what you are doing each day or scare the crap out of you to make you realise that what you are about to do, isn't going to work, in which case stop it, before it fails.

I've helped business owners create countless budgets and forecasts, and many on paper don't work, and my advice is simple. Stop doing this.

There is also a hidden benefit and that comes to raising finance and spending. It's not a problem to borrow money for your business, so long as you know what it is for and how you are going to get a return.

As an example, If you want to invest in a new home office, which in turn will help you become more efficient and give you a working space which will enable you to earn more, then raising finance with repayments that are less than what you will earn each month should be a no brainer.

Sadly some I see will raise £50,000 to grow their business because they expect sales to come in over the next few months, they have no plan, no marketing strategy, just sheer enthusiasm and no time to prepare a budget, only to discover that really they need £100,000 and what they borrowed was not enough, leaving them high and dry at the very critical moment their enthusiastic efforts where about to make them fly, now they have no more sales and are in debt.

Forecasting and budgeting is not just about borrowing money and planning sales, it can also be used to test and help you look into how the cash flows through your business.

Earlier we talked about the "LAG" this is the timing difference between when you make a sale and when you get the cash. If you offer payment terms, then not only are you at risk of not being paid, the busier you become and the more sales you make the more you are owed and the more cash you will run out of. Added to this, when you are super busy making lots of sales, your systems for debt collecting and chasing customers for payments will skip and you once planned 30 days credit you give customers is now 45 days and you can't meet payroll.

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You need cash everyday to run your business and a good accounting system will incorporate a budget and forecast, but a really good system will also have plans and marketing strategies and full written understanding of your customer journey.

## What did we learn?

- Accounting is not just books and records and reports, it can easily take you onto budgeting and forecasting
- Predicting the future of your business is equally scary as you face the truth but also very existing as you unearth hidden profit ideas.
- Forecasting and budgeting on paper is risk free, if your business idea doesn't work on paper, STOP IT go do something else.
- Don't give away your cash to your customers. Collect your money immediately, or you will run out as you grow..
- Avoid underfunding your business by not planning properly, work with your accountant to collaborate with the data and have someone to sense check what you are doing.
- Liquidation and bankruptcy happens, it's not the end of the world although it probably feels that way. The system allows you to try again, but learn from your lessons, don't keep doing the same thing with no plan
- If you have no cash, you can't pay suppliers, if you can't pay suppliers not only is it stressful, but you are at risk. Take time out to plan, understand and develop the muscle of looking into your Crystal ball regularly and avoid the common pitfalls that thousands make each and every month.

Next Module - Pre Accounting