

12 things your
ACCOUNTANT is **NOT**
telling you that could be
HURTING Your Business



By Robert F. Cruise, E.A.
President
Cruise & Associates

**Free special report for small business owners,
professional practice owners and
independent professionals**

www.cruise-associates.com

robc@cruise-associates.com

Toll Free: 800-401-4284

239 S 2nd Street
Albion, NE 68620
P: 402-395-8789
F: 402-562-6134

3023 13th Street
P.O. Box 726
Columbus, NE 68602
P: 402-564-5827
F: 402-562-6134

4715 S 80th Street
Suite A
Omaha, NE 68127
P: 402-558-6922
F: 402-558-3546

About Robert F. Cruise, E.A.

Robert F. Cruise is unique in the world of accounting. His real world experiences and education include a mix of formal education that includes a Bachelor's of Science in Accounting from Wayne State College, Wayne, Nebraska, and a real world perspective that comes from building several different companies from the ground up. He is also a very active real estate investor, manager and trader.

In addition to his business interest and real estate holdings, Mr. Cruise is the principal shareholder and President of Cruise & Associates, a company that he founded in 1991 and currently has offices in both Columbus and Omaha, Nebraska and employees over 25 employees during peak business periods. He holds several licenses which include an Enrolled Agents (EA) license. (Note: Enrolled Agents are the only professionals that are licensed by the Federal Government and can represent taxpayers on all levels of the IRS and on a national basis.) He also holds Series 7, 6, 66, 63 security licenses, insurance licenses and annually completes over 40 hours of continuing education. He is the trusted advisor for hundreds of individuals and businesses in the Nebraska, Iowa and South Dakota.

Mr. Cruise is a small business advocate who provides everyday down to earth practical business advice in plain English that anyone can understand. Cruise & Associates specialize in providing personalized Wealth Management Solutions Through: income tax, business and financial services to their clients. Their specialty is in helping Clients to minimize their tax liability and maximize their income. You can place confidence in them knowing that everything has been taken care of.

In addition to all the real life practical experience, Mr. Cruise has a unique ability to translate complex and confusing income tax, business, & financial concepts into easy-to-understand and easy-to-follow terms. He tells clients – in plain English – the current status of their business and, more importantly, assists them in reaching their business goals.

“The best financial advice is worthless if you can't understand it,” Mr. Cruise says. “My training and real life experiences make it possible for me to fully comprehend the challenges and opportunities businesses face. I'm committed to helping business owners achieve financial success and, fortunately, the opportunities to do so have never been better.”

Toward this goal, Mr. Cruise designed and developed several unique Small Business Programs using the most current technology available, which offer a flexible and affordable program of comprehensive, proactive and progressive services. He is a true believer that every business owner deserves to have peace of mind in making business decisions and have the access to a trusted advisor that isn't just doing the record keeping but is there to give the business owner the personalized attention and help them make the best business decisions. All of which give the business owner a true sense of security, trust and peace of mind.

To learn more about these services, visit www.cruise-associates.com , call (800) 401-4284 or e-mail Mr. Cruise at robc@cruise-associates.com.

Disclaimer:

The information contained in this special report has been obtained from sources that are believed to be reliable. The publisher or author is not responsible for any errors, omissions, or damages, which may be caused by the use of information contained in this manual. It is sold/offered with the understanding that the publisher is not engaged in the rendering of legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Published by:

Cruise & Associates
Columbus, NE, USA

Table of Contents

Introduction	4
Pricing Incorrectly	5
Overpaying Taxes	6
Not Planning Your Exit Strategy	7-8
Not Paying Yourself First	9
Forgetting that Cash is King	10
Failure to Keep Overhead Low	11
Not Knowing Your Key Financial Indicators	12-13
Not Seeking Professional Advice	14
Having Too Much or the Wrong Type of Debt	15
Making the #1 Biggest Marketing Mistake	16
Failure to Use your Time Wisely	17
Surrendering the Financial Responsibility of the Business	18
Next Steps	19

Introduction

In starting Cruise & Associates back in 1991, little did I know how unprepared for the real world of business that I was. I remember saying to myself, ‘gosh I have my accounting degree, I will send out 100 letters to small businesses and if anyone hires me then I will start an accounting firm. Lo and behold some one answered my letter and wanted me to do the bookkeeping for his business. Wow, I was in business.

This sounded real easy at that time. We all have had our little moments similar to that when we were planning to start our business. This was just one of many of these moments I have had over the last 20 or so years of my life.

When I started Cruise & Associates, I was 23, young and full of energy and ready to take on the world. I quit my job and dived head into ‘being in business.’ I joined the Chamber and spent money on advertising, which had no chance of working, but the sales rep told me it would. All in all at the end of the first year, my business ended up grossing \$10,000 with losses of \$8,000, and I was back living with my parents and working other jobs nights and weekends. When thinking about this time in my life, it was not a lot of money, but at the time, it seemed like I was done for, to the point where I had lined up a couple of investors to make a offer on an local restaurant that was for sale. I remember saying to myself, ‘I have two choices if my future is to be in the restaurant business the seller will accept my offer and if my future was to continue with Cruise & Associates then the seller will turn it down.’ It was a very good offer, and the seller turned it down flat, did not even counter. One reason I know it was a good offer is because the seller called me about nine months later and asked if I was still interested.

What happened at that point? To this day, I cannot fully believe that there was not someone watching over me. The same day I found out the seller had turned my offer down, I met the next mentor in my life. This individual had built an accounting firm from one location to over 300 locations in the western part of the United States, and that person talked me into not giving up, and started to teach me “How to Build a Business.”

It must have worked, 20 years later Cruise & Associates, my business, has two locations and 25 employees during peak season.

The most important thing I learned from that experience and a lot more along the way is in the power of having someone mentor and help you. It truly transformed me and my business. I went from my role as “accountant” to that of a “trusted business advisor and mentor.” The clients started realizing they could bring their business problems and not just their books and taxes to me, and I could give them a wide range of advice well beyond the scope of being just their accountant.

Within this report, I have outline 12 areas that every business owner has to be concerned with. When these areas all work together, they can make the business strong, profitable and very secure. My goal for this report and for Cruise & Associates is to become the mentor for all our clients, as a very good friend once did for me.

This special report contains information about what your Accountant/CPA should be helping you with. Failure to recognize this could be costing you thousands of dollars. In fact, many businesses are not aware of the role that their Accountant/CPA should or could be playing in their businesses. Once you finish reading this report, you should have a firm understanding of what you should expect from your Accountant/CPA and how to initiate conversations to facilitate changes in your current relationship.

1: Pricing Incorrectly

Far too many small businesses have thinner profit margins than larger companies because they tend to under price their products or services. Pricing is critical to the success of any business. In fact, many books and articles have been written solely on the subject of pricing.

If you sell a product for too little, your company may not be able to cover all its costs or you might be leaving potential profits “on the table.” If the price is too high, there may not be any sales or enough sales to cover the business’ overhead costs.

The price of your product communicates information to current and potential customers. Customers often infer the quality and value of a product based on price. Commodities are products or services that can easily be purchased from many sources. If your product or service is a commodity, then you will have very little ability to price above the competition without adding substantial value in other ways such as additional services, expertise, or “one stop shopping.” In cases where your product or services are unique or highly differentiated, there is the potential to charge a premium price. Of course, the unique value must be communicated to and appreciated by the customer.

I’d never want to be in a business that procured its customers with the lure of the “lowest price.” You never want to sell based upon price. Rather, you want to sell the quality, value, service, and unique benefits of your product or service.

There are a couple of things to keep in mind when it comes to pricing. The first one is to not overestimate the importance of price. Let’s assume you’ve got a great product, at a fantastic price, backed up by great service. You’ve advertised and now you expect people to flock to you? Trying to sell on the logic of product/price/service will only have you tearing your hair out. Certainly these things matter, but not half as much as the emotional need your customer is actually satisfying by purchasing your product or service. If you don’t know what that emotional need is, or how to communicate to your customer that you can solve it, then you will certainly struggle.

The second is to find a niche market. If you find yourself in a market place that does not allow price increase, then you want to look at underserved niches and then specialize in that niche.

In virtually every industry, specialists earn and price better than a generalist. For instance, your long time family doctor tells you that you are going to have to have heart surgery and that his fee would be \$5,500 to perform the surgery or he could refer you to a heart specialist to do the surgery at a cost of \$7,500. Of course, you are always going to choose to pay the 36% premium for the specialist. You’ll often find the same patterns in industries such as consulting, real estate, construction, information technology, accounting and law. Another good example is the basic hamburger. We all know that we can get a hamburger in hundreds of different places everywhere from McDonalds to upscale places like Red Robin and Applebee’s. It is very obvious if you were just looking at price, McDonalds will be the lowest cost provider, so if price was the only factor people looked at, the only place that you could buy a hamburger would be at McDonalds. Then how do places like Red Robin and Applebee’s stay in business? In our firm, we always talk to our customers about not pricing against Wal-mart. You will loose; however, if you compete against them in ways they can’t like service, knowledge and personalized service, a customer will pay more.

I believe the accountant should play a pivotal role with the pricing strategy of his small business client. The profitability of a small business is directly correlated to the prices/fees charged by the business. So it is critical that the business implement an optimal pricing strategy. The accountant should be involved in that process to make sure you are pricing for profitability.

When our firm is hired to help a small business owner with the accounting needs of his or her business, one of the first things that we look into is the businesses’ pricing structure. More often then not, we find a hidden goldmine resulting in a surge of new cash flow and profits.

2: Overpaying The Government In Taxes

Income taxes are the single largest expense that a small business owner will encounter. This amount is often larger than their home or the cost of getting their kids through college. Warren Buffet was once quoted saying “The biggest expense for any business is taxes.” So, this is one area that a business owner needs to focus on every year.

I am often amazed at the number of business owners looking for ways to reduce expenses. I have seen time and time again many small business owners spending hours fighting over a \$200 charge by their credit card company. Yet, they will spend little or no time learning how to reduce their tax burden. And, in many cases, the amount could be thousands of dollars each and every year. So, which amount do you feel is a better investment of your time to save?

It is well known by the IRS that the average small business owner over pays income taxes. Our firm sees this all the time with our new clients. We constantly see missed deductions by our small business people because they did not keep proper records or worse yet had a reactive accountant vs. a proactive accountant that did not take the time to educate the customer about missed deductions. It has been estimated that small business over pay their income taxes by more than \$2 billion dollars annually. Personally, I think that number is low and should be doubled. Many of these businesses are still unaware of their errors. In talking with many small business owners over the years, I don't ever remember any of them telling me that they got a call from the IRS because they missed taking a deduction. The IRS' sole purpose in life is to collect as much tax revenue as possible.

I was recently reading a book by Dr. Stanley titled “*The Millionaire Next Door*.” This guy did extensive research on millionaires, and he concluded that most people who became millionaires don't win a lottery, inherit a lot of money, or make a big stock market gain. They were, for the most part, average folks who saved a little bit each year, probably from the taxes saved with good planning, and invested the money in an average investment for 30 or more years.

At first, I didn't believe this, so I calculated it for myself. If you were to invest \$4,000 for 40 years at an average return of 9% per year, your investment would be worth a whopping \$1.6 million at the end. This means that the small business owner who saves money through good tax planning and invests the savings in a retirement account or other investment can become a millionaire. Tax knowledge is power.

You probably know that tax laws are constantly changing. What makes sense today in tax planning may not make sense tomorrow. If you have an accountant helping you with this role, they better keep up with the trends! From my experience, many tax and accounting professionals don't proactively help their clients with tax saving strategies and prefer taking a “backseat” or a reactive approach. That does not help the small business owner.

For example, when I talk to new business owners, they are not taking advantage of many important tax reduction strategies like the home office deduction. Many don't hire their children to work in their business and hence, miss out on being able to shift income from a higher tax bracket to a lower tax bracket. Many have not set up Roth IRA's for their children. Others are not sure if they are set up with the best legal structure and overpay the government because it has been years since their accountant last reviewed their legal structure. Yet others operate with several owners/members and either don't have a buy-sell agreement in place or have an agreement that is outdated because it has been years since it was last reviewed.

It is important to sit down with your accountant several times through the course of the year to review your business' income tax trends. By meeting with a knowledgeable proactive accountant, your business will be able to maximize income tax deductions, act proactively to see what steps to take in the next quarter and properly advise you to help reduce your overall tax liability. If your accountant is not currently working with you in this manner, it could be costing you and your business thousands of dollars per year.

3: Not Planning Your Exit Strategy NOW

There will be some point in the future when you may want to “get out” of your business, that is, exit it. Too often, I see genuine hardworking people who have struggled and persevered to build up a good successful business become disappointed and confused when they realize, following the sale, that they failed to reap the richly deserved benefits of all their hard work.

The mistake these common business owners make is that they do not start thinking about their exit strategy early. Even though the sale may seem far off, thinking about it now can allow you to have time to work with professionals to develop a proper plan. The degree of care and effort you put into the sales process could have a huge impact on the price you receive and how long it will take to complete that sale.

When selling, business owners may not know what to do or where to start. Without knowledge, often a business fails in being presented effectively to potential buyers. Even if you are not yet intending to sell, reading about this mistake will not only give you a better appreciation of your own business but will also expose you to some pertinent principles

There are a number of things that your accountant should be doing to improve the value of your company. Because these things take time, the ideal situation would be to start working on them three years before the sale, since most buyers will want to see three years of financials and tax returns on your business before making an offer or completing a sale.

Improve your business’ income. One of the first questions that a buyer will typically have is “what is the revenue and the net income of your business?” The most vital step you’ll want to take is to clean up your income statement. You can have your accountant recast your financials to reflect the way the company should look with new owners. This may mean simply increasing your advertising expenditures, hiring another salesperson on a commission basis, or keeping your business open for an extra eight hours per week to generate more revenue. Also, take a hard look at your expenses to see whether you can reduce them. You may also want to have your accountant capitalize certain items that might otherwise have been expensed and review your depreciation and inventory reporting methods.

Improve your business’ assets. Assess the assets of the business. You’ll want to sell off or dispose of any unproductive assets or inventory that isn’t selling. The buyer won’t want to pay for them, and they will only drag you down — better to get what you can from them now, and write off any losses that may result. The business may own assets that you will want to retain after the sale (the most common example is a company car). Now is the time for you to “buy” the asset from the business, perhaps at the current book value.

If the business owns real estate, you might consider removing it and placing it in a limited liability company so that it will not be transferred in the sale. You can continue to lease it to the new owners, or to someone else, and retain an income stream. This is a judgment call — for some businesses, the real estate provides the main appeal to buyers and you won’t get much for the business without it. Your business broker, if you have one, should be able to tell you whether this is true for you.

Another move you may want to make is to replace any machinery that’s nearing the end of its useful life, and do any necessary repairs and upgrades. The average buyer wants to purchase a turnkey operation, meaning that all they have to do is walk in, turn on the lights, and the business will operate with no immediate need for investment on their part.

Clean up potential liabilities. You should make an effort to clear up any pending or potential legal problems, such as product liability claims, employee lawsuits, IRS audits, insurance disputes, etc. A buyer who purchases only the assets of your business (instead of corporate stock) generally won’t get stuck with inherited legal problems; however, the very existence of lawsuits or other problems may raise red flags in a potential buyer’s mind. One concern that buyers increasingly have is whether there might be any lurking environmental problems on your property.

When problems turn up, its possible that any and all former owners can be held accountable by the government for very expensive cleanup costs.

If real estate will be part of the sale of your business, you should make every effort to ensure there are no leaking underground storage tanks, asbestos, lead paint, hidden hazardous waste, or other nasty surprises around the property. If its reasonable to conclude that problems are unlikely, an environmental transaction screen conducted at your attorney's direction may be all that is necessary. This is one area where your lawyer's advice will be very important.

If you are like most small businesses, you have probably shown lower profits to minimize your annual tax burden. While that strategy may be excellent for tax purposes, it could be harmful when it comes time to determine the value of your business. To obtain the highest price for your small business, you will want to make your company look as profitable as possible to prospective buyers.

The best way to do this is to have your accountant recast the profit-and-loss statements to reflect the owner benefit adjustments for what the business owner takes out of the business in terms of compensation and fringe benefits. This can be especially useful when dealing with a buyer who would operate the business himself.

The next thing is to take these recast financial statements and prepare projected financial statements for the next five years. Remember that the prospective buyer is looking at the future potential growth and profitability of your business and your projections could serve as an important basis for the prospective buyer to pay top dollar for your business.

Unfortunately, in my experience, I see most business owners who sell their business end up getting pennies to the dollar and get the short end of the stick because they didn't properly plan the sale.

4: Not Paying Yourself First

Small business owners need to put something aside from every check they receive in order to save for their futures. I call it “*Pay Yourself First*,” and it is one of the cardinal rules of running your own business. Yes, I know, you have a lot of bills. Join the club. But before you pay any bill, take any trip, or buy any car, you need to pay yourself first, every month.

The rule to consider is that 10% of your *net income* (or 1% of your gross income) should go towards financial investments for your future, no matter what your income is. While this may initially seem like a significant amount to those who are not currently saving, once you begin to pay yourself first, you will hardly notice that the money is missing from your cash flow. You can also start saving slowly. What I mean by that is you begin with say 2%, then increase to 5% and then within a few months, increase to 10%. For individuals and families who are currently spending their entire net cash flow, staggering the amount saved over a few months will ease the transition phase.

Don't wait for the end of the year to add to your retirement accounts. If you do this, you are unlikely to set aside the same amount you would if you started early and made regular contributions. For example, if you wait until the end of the year to save for your retirement, it is very possible that you would have used the funds designated for your financial future for other purchases instead. In fact, most people have a hard time with financial discipline when they can see their savings in their bank account on a daily basis. It is important to remember that a small business is a cash generating asset to take wealth out of, not just to have wealth locked up in. You work hard for your cash, and your cash should work just as hard for you.

You must not settle for whatever's leftover! Others get what's leftover after you are properly paid, and if the leftovers aren't enough for the others, reduce staff and cut expenses. If that won't cut it, do the mercy killing now, not later, and move on. You must not con yourself into nothing now for later. If you can't take at least 1% off the top now, there won't be any later. Consider this statement strongly and review your current cash flow statement for areas that could be improved. Again, it should not be challenging to take 1% of your business' cash flow for your future retirement savings.

Let me share with you an interesting fact you may not be aware of. The personal savings rate in the United States has been approximately 4% since the late 1980s. That is half of what it was in the 1970s, and substantially less than other developed countries. The Japanese save at least three times the U.S. rate, the Germans double. At this rate, our nation's wealth will be considerably behind other nations over the next decade.

Many retirement plan options allow for deductions for either the small business owner's gross annual income or for the business. This presents a tax benefit in addition to the benefit of building personal wealth. When determining which course of action is the best for you to take, you should outline the benefits of each retirement plan, the process of establishing them and the ultimate outcome of your financial planning. Similarly, your company's flexible savings account can serve as a useful tool to pay medical expenses and dependent-care expenses with your pretax dollars.

Understanding your financial benefits as well as those of your business can often be enough to compel small business owners to pay themselves first. So, discuss savings concepts with your accountant in your next meeting and work to establish a regular savings program that works for you and your business. Before you know it, you will have begun to build your future financial freedom.

5: Forgetting That Cash Is KING

Although cash is critical, most small business owners put emphasis on profits instead of cash flow. The dot-com bust is a painful reminder that profitability does matter – but that “cash is king.” I’ll even go one step further – managing cash flow is THE most important financial measure in any business. Knowing how much cash is coming in versus the amount required to go out, not only helps you understand what amount can be reinvested into the business, but can also determine whether a company will survive.

Not all cash coming into a business must come from operations. Investments, both debt and equity, can provide intermediate cash to run a business. However, it is critical to know in advance what your cash needs will be to find the best source of funds. Sitting down each quarter or at least on an annual basis to review these concepts is important for generating cash flow for your business.

When you imagine a new business, you think of what it would cost to make the product/service, what you could sell the product/service for, and what the profits might be. We are trained to think of a business as sales minus costs and expenses, which are profits. Unfortunately, we don’t spend the profits in a business. We spend cash. In fact, many businesses discover that they have little cash flow at the end of the year even though their profit and loss statement shows a decent net profit.

Profitable companies go broke when they have all their money tied up in assets and can’t pay their expenses. Working capital is critical to the health of your business. Unfortunately, we don’t see the cash implications as clearly as we should, which is one of the best reasons for proper cash planning. Businesses have to manage cash, as well as profits to be successful both in the short term and in the long term.

Cash flow and profit are two concepts that are very *different* from each other and very often misunderstood by many business owners. Hence, adequate attention is not given to cash flow and cash reserves. A company should make all efforts to have enough of a cash reserve to pay bills, salaries and other expenses for several months (or longer, ideally) during cash-flow fluctuations. A good example of this, is when founder Bill Gates started Microsoft. He always keep one year’s payroll in the company reserves.

You should create a program that will enable your business to build cash reserves, which include the amount needed. The program should show how to build it, and where to invest it, so that it works as hard for you as you did to build it. My rule of thumb and advice to my small business clients is to maintain between 4 to 6 months of a cash reserve at all times. These cash reserves will then be available in the event of a cash crunch or an opportunity that arises.

Business opportunities arise on a daily basis that cannot be taken advantage of due to poor cash flow and lack of a cash reserve. For example, if your business runs on commodities such as sugar for production of products, prices for this commodity fluctuate throughout the year. If the price of sugar dropped substantially, offering your business the opportunity to boost net profits by lowering operating costs, this would be a prime opportunity to take advantage of. But, if your business does not have the cash flow to take advantage of this opportunity, it will miss out on this chance to boost profits.

Your accountant should outline for you a program to enable your business to build cash reserves, including the amount needed, how to build it and where to invest it so that it works as hard for you as you did to build it. Your accountant should hold regular meetings with you with regards to the amount of cash reserves on hand to ensure that they are always adequate.

6: Failure To Keep Overhead Low

Businesses are always searching for ideas and concepts to generate profit. Some of these concepts include increasing sales, while others include decreasing overhead. No matter which way you look at it, the name of the game is to generate positive net profit numbers as well as positive cash flow.

There are three ways to make more money in your business:

- 1) Sell more products and services
- 2) Raise your prices
- 3) Reduce your overhead

Businesses that underperform from a financial perspective have often allowed their success to creep in and increase overhead. Expenses and items that were considered to be too much money in the early, lean years are permitted once things get rolling as a sign of prosperity (among other reasons).

If you want to increase your profitability, you may need to keep your eyes on your overhead and look to decrease them. In fact, decreasing overhead is often considered to be the easiest way to increase net profit numbers.

One of the most expensive overhead items for almost any business is payroll. Most companies hire employees they don't need, causing their payroll expenses to increase. Hiring unnecessary employees subjects you to registration and record keeping requirements and can be very expensive. You'll have to pay unemployment taxes, withhold state and federal income taxes (as well as Medicare and Social Security taxes), pay for workers' compensation insurance, and comply with safety regulations to avoid injury to your workers.

You may face severe penalties -- and may even be found to be personally liable -- if you don't comply with all of these employment requirements. If you need help with your business, consider hiring an independent contractor or a worker from a temp agency rather than a permanent employee, as you avoid having to pay all of the fees listed above.

Here are a few ideas to reduce the cost of payroll:

- **Restructuring employee compensation/bonuses to link to production or desired expected goals.** EXAMPLE: I have one client in the construction industry that literally doubled his net profit using this one strategy.
- **Train, train and then, train some more:** Often, poor or inept employee performance is NOT deliberate sabotage. It is due to a lack of appropriate training. Often employers assume new employees know how to perform their job functions; and, therefore, do not train them to their job. Spend time training each of your employees so that they understand their roles and how to perform at the most optimal level for their position.
- **Hire slow, fire fast.** Don't hold on to people that aren't contributing to the success of your organization. Firing someone is tough work for most small business owners, but if its got to be done, you've got to do it. And, do it NOW!
- **Start by establishing clear deliverables and deadlines with every employee.** Then, set aside time on your calendar to inspect their deliverables. A big mistake is to assume that just because you assigned a project to an employee, it will get done satisfactorily. Take time to inspect the results and give constructive feedback to your employee.

Most accounting firms only meet with their clients during tax season. However, the best accounting firms meet with their clients throughout the year to address a variety of issues, including finding ways to reduce your business' overheads. During these meetings, they are often able to locate opportunities for overhead reduction, working to boost the company's bottom line.

7: Not Knowing What The Key Financial Indicators Are For Your Business

Most accountants will only keep track of historical numbers like gross sales, gross margins and net profits. While these can be useful, there are other equally or more important numbers that should be kept track of that most “old school” accountants are not aware of. I believe and remind my small business clients that what is not measured cannot be improved.

The sad fact is most business owners have no idea what their numbers are. And that means there’s no good reason they should expect their business to improve because they lack a way to measure the results!

The first financial indicator I talk about is in bullet #5 i.e. knowing the net cash flow on a monthly basis. If cash is termed by many as “king” then net profit certainly deserves the title of “queen.” To illustrate its importance, here’s a personal example. I work really hard, but, I stopped working for free a long, long time ago. I insist on generating profit. I track and measure it constantly. I’m very big on keeping score. I’m also very aware that bigger is rarely better, unless running a company up for sale or a public offering.

Very few small business owners spend enough time analyzing, what parts of their businesses...what services...what clients...what geographic territories...etc., are most (net) profitable vs. least (net) profitable. They let low profit stuff consume the same resources as high profit stuff. They over spend money in overly fancy offices, addresses, staff, etc to impress people without profitable purposes.

The questions that should be asked are:

- How does this contribute to NET?
- How much does this contribute to NET?

All other benefits are fine and dandy, as extras, not without net. Every justification I’ve ever heard for doing things with little or no net is invalid.

The other financial indicator that many small business owners don’t do an adequate job of understanding and tracking is the **lifetime value of the customer**. The lifetime value of a customer is one of the most valuable things you, as a business owner can know. It is the total profit of an average client over the lifetime of his or her patronage.

Example: Let’s say that your average new customer brings you a profit of \$100 on the first sale. He or she repurchases three more times a year, with an average profit of \$150 on each reorder. Now, with the average patronage lasting two years, every new client is worth \$1,000: $\{ \$100 + (3 \times \$150) + (3 \times \$150) \} = \$1,000$.

Why is this calculation so important?

By knowing what the value of an average customer is, you can then determine two things:

- How much you can afford to spend to acquire a *new* customer.
- How much you can afford to spend to keep an *existing* customer from leaving you and purchasing from a competitor.

The other extremely important number is the total **cost per lead**. Most small business owners don’t know what this amount is for their business.

Let me give you an example: If you spend \$500 on an advertisement in a magazine and that ad generates 5 qualified leads, then your cost per lead is $\$500/5 = \100 per lead. Once you know this number, it enables you with the ability to measure and compare the Return On Investment from each advertising initiative you do.

From the above example, if you convert two customers, a 40% closing, then your cost per sale is $\$500/2 = \250 . The **cost per sale** is the other indicator most small business owners don't keep track of. If the lifetime value of my customer is \$1,000, would I spend \$250 to get that customer? How many of you here would spend \$250 to get back \$1,000 in lifetime customer value? How about \$500? How about \$750?

The response should be a resounding "yes."

You would find all the media out there (some examples of which are coupon advertising, direct mail, newspaper, internet, etc,) that would allow you to do that.

Here are three other financial indicators that you should measure and keep track of:

- 1. Average transaction size or average client fees per year.** Once you know this number, you can find ways to increase it through up-sells, cross-sells, price adjustment, etc.
- 2. Number of customers for the day / revenue of the day.**
- 3. Capture of names/addresses/birthdays of new customers.** Prospects may not purchase from you today but because their name is in your database and you are keeping in touch with them they may become your customer in the future. By collecting pertinent information, you can keep in touch with your new customers and prospects.

Your accountant should play an integral role in driving your business revenues through recognizing the value of clients and their impact on the bottom line, which can assist you in mapping out marketing and client service strategies.

8: Not Seeking Professional Advice

Do you have professionals providing your business with quality advice? In business, you should surround yourself with a variety of professionals including a lawyer, an accountant and a business advisor. One of the most important professionals that touches your business' heart, cash flow and profitability, is your accountant. Yet, many businesses don't put a great deal of time or effort into choosing their accountant.

The accounting firm that you choose for your business should be the best that you can afford. That does not mean you should only refer to the top level consulting houses. It means that the person you select to work through your issues should be considered to be money that you "invest" in your business, and there should be a payback; therefore, his cost is not relevant.

Once you have chosen an accountant to work with, you need to schedule a meeting to discuss your goals and objectives, and see if they are a match with the services that the individual or firm provides. Even if you already have an accounting firm working with your business, it is important to re-evaluate whether they are the best match for your business' needs. During your meeting, you should have a clearly defined set of goals that you want to attain. Take this opportunity to see whether they can give you the right insight. Then, engage with them and deal with your issues immediately.

The litmus test: A list of questions to ask of your current accounting firm:

1. Does your current accountant offer proactive (before any damage can be done) accounting, financial and tax advice?
2. Will the individual meet with you on a regular basis in the course of the year to guide you to maximum revenue with minimum tax liability?
3. Will they coach you to success rather than merely report history?
4. Will they train your clerical staff on how to use QuickBooks and provide periodic "health checks" of your QuickBooks system to ensure the integrity of your financial data?
5. Will they ensure that you don't have any inherent red flags for the IRS to audit your business?

Don't be afraid to ask these questions of your current accountant. After all, they are responsible for an important function within your current business structure. Why would you leave your business' finances in the hands of someone who is not going to help take care of both you and your business?

If you are not comfortable with the answers that your current accountant provides to these questions, begin your search for a new accountant. Even if you like the answers from your current accountant, it is always recommended to gain a 2nd and even 3rd opinion. It is crucial that you have the best individual or team on your side to manage your business' financial affairs. This is what my firm provides each and every one of our clients: expert advice and superior client service. Don't you deserve the same?

9: Having Too Much Of The 'Wrong Type' Of Debt

Some people don't realize that there are two kinds of debt – good debt and bad debt. Most growing companies need to take on some amount of debt to fund growth, but debt at exorbitant interest rates is often called “the wrong kind” of debt. Choosing the wrong kind of debt for your business or having too much debt can be detrimental to the business' lifespan and success.

What is the “wrong” kind of debt to amass in business?

The following would make the list: credit card debt, car-dealership vehicle loans/leases, personal loans at high rates, high mortgage balance, etc. But in reality, the wrong kind of debt should be thought of as any debt that either is not necessary or that can be refinanced at terms that are more favorable. Plan to systematically review every outstanding loan and try to find a way to either pay it off (without compromising growth, of course) or refinance at a lower rate.

If you have expensive debt (such as credit card balances), your accountant should be helping you to determine what other financing options are available to your business. If your company is profitable or is showing strong signs of becoming profitability, it's likely that lenders will work with you to refinance at a lower rate. Don't think of this as a favor they are doing for you. Rather, think of it as good business for the lender. These financial companies are in business to make money from loans. If you bring a good credit history and a viable business record to them, they'll seriously consider lending you money and getting you out of the unnecessarily high payments you're making. Doing so will make your company all the more profitable.

The debt that your business is currently carrying is something that your current accountant should be addressing with you annually. Not only is it important in terms of saving your business money on an annual basis, but it can save you money in the long term when you are seeking capital financing or even a potential business sale. Ensure that your accountant is educating you and addressing this topic on an annual basis.

10: Making the #1 Biggest Marketing Mistake

It is so easy for a business owner to get caught up in the daily operations of their business. The inventory ordering, order processing, data input, putting out fires and more, can become all consuming. Then, one day you look up and wonder what happened to the business.

Marketing is all about future sales. You plant the seed today to reap the benefits tomorrow. If you want a long-term successful business you can hand off to your children, don't neglect marketing. Every month, set aside at least one hour each work day to dedicate toward marketing activities.

Marketing activities include:

- studying and knowing the difference between "good marketing" vs. "bad marketing"
- deciding to expand an existing product line
- dumping unprofitable products or adding new products
- determining where your advertising can generate the biggest return for the investment
- planning your marketing materials and activities for the year ahead
- nurturing your existing customer relationships via a "touch plan" to regularly stay in contact with your customers (I teach my clients that an ideal touch plan should have at least 24 "touches" in the course of the year, other than the "touches" when you are servicing them.)

All of the activities listed above are crucial functions for your success.

The biggest marketing mistake I see most small businesses make is not having enough of what I call "**Marketing Pillars**" for their business.

What I find is most small businesses develop one or two main forms of marketing, or what I call Marketing Pillars, and that is where they stop. They in essence put all of their eggs in one basket by betting that those one or two pillars will always work, and then, when one of them fails or falls short even for a short period of time, the businesses growth and sales suffer.

When I am talking with small businesses about marketing I always talk about having multiple pillars of marketing. By doing that if for some reason your main pillar goes dry, even for a short period of time, a business has several other pillars already going to fall back on.

A business should always have seven to eight tried and tested marketing pillars going at any given time and should always be testing one to three new ones.

The business owner should do the following for each Marketing Pillar they have in place:

- 1) For each and every marketing pillar the business owner should run a mini-profit/loss statement using Excel. These should be reviewed annually at a minimum.
- 2) Put all Marketing Pillars on a annual or bi-annual review
- 3) Establish a marketing calendar to help keep track of all marketing

So, spend your time with the numbers and take time to read and listen to marketing professionals in and out of your industry. Dedicate at least one hour per day to "working on" your marketing. Make this an important part of your business and not just something that has to be done. In doing this, you will notice a drastic increase in your sales this year and over the next few years.

11: Failure To Use Your Time Wisely

The main reason that many small businesses do not perform to their full potential is because as the business grows the owner gets caught up in the day to day activities of the business. Think back to when you started your business. You were always working on new ideas to bring customers into your business. As the business grew, you got busier and busier and other day to day tasks started taking up your time.

However, the most profitable activity for any business owner is working on his or her business and not working in it.

What I recommend to all my business owners is to track your day for a period of two weeks. You can do that simply by writing down hour by hour what you were doing.

After a period of two weeks, you will find that you spent a lot of time, working in your business and little to nothing working on your business.

Once you complete the two weeks, you will most likely find some if not all of the following items that you spent time on:

- 1) Administrative work (i.e.: filing, answer the phone, mailing letters out)
- 2) Bookkeeping
- 3) Waiting on customers
- 4) Making a bank deposit
- 5) Payroll

Don't get me wrong, all of these are important; however, some of them can be outsourced and some of them could be incorporated into other employees' jobs. The most important thing for you to realize is that working on your business is just as important if not more important than the above. For a business to grow, it needs to have the time and attention you gave it in the beginning.

What I suggest to all of our clients is they spend at least one hour per day "working on" their business, and at least one hour per day, "working on their marketing." You can find that hour by giving up and delegating out some of the day to day tasks that we find ourselves involved in.

I guarantee you if you commit to the above changes for the next 12 months you will see a drastic change for the good in your business.

12: Surrendering The Financial Responsibility Of Your Business

Even if you hire someone to handle your accounting and bookkeeping, there are still some things you, as the business owner, should not totally surrender responsibility for.

The following are guidelines for you to use on a regular basis:

- 1) **Compare actual results to budget.** *Each and every month* compare your income and expenses to your budget. It's a great way to learn what's working and what's not working with your business. The goal is not to have an accurate budget but for you to have a thorough knowledge of what is happening and to know if anything unexpected is going on.
- 2) **Look at canceled checks.** Conduct a thorough review of your bank statements, making sure to flip through the canceled checks. Ensure that all signatures are yours, and that you recognize the vendors. Scan the endorsements on the back. Personally, I still sign all my accounts payable checks; however, I don't post the invoice or print the check, our accounts payable clerk does that. When I am signing checks I review invoices at that time and not before.
- 3) **Review payroll register and handout the paychecks.** In some industries, "padding" the payroll is a common problem. Regular review of the payroll register will prevent this from occurring.
- 4) **Review statements from vendors.** Every now and then (maybe 3-4 times per year) take the time to open the mail and look at statements from vendors. (Many vendors don't send statements, but do send late notices). Here you want to make sure that your business is in good standing with vendors. Long overdue invoices might be an indication that a check you thought was going to a vendor actually went in someone else's pocket or that an invoice has been overlooked.
- 5) **Review your Accounts Receivable and aging.** Check for "slow paying" customers, and make sure customer payments are being correctly applied.
- 6) **Scan the check register.** Periodically (every 3-4 months, or so) take a look at the check register just to make sure all the payees are familiar to you. Multiple checks written around the same time to the same vendor could be an indication that funds are being diverted. (You also might want to reduce the time spent writing and posting multiple checks.)
- 7) **Take a physical inventory.** Do you know how much inventory you really have? Accountants can be very helpful setting up inventory tracking systems, or you can use one of many available accounting software packages. Physical inventory should be taken at least once a year, but it is generally advisable to do it more frequently.

Your accountant should help you develop an organization system for all of your business' documents. By being more organized, you and your business will run smoothly.

Next Steps

I hope the information in this special report was useful. The most important thing to recognize is that all Accountants and CPAs are NOT the same. Most take reactive approaches when advising their clients. If you would like to meet for a free, one hour consultation to explore your options, please complete this form and fax or e-mail it to our office.

Here is a partial list of the type of things we will discuss in plain English (yes, it's a completely confidential meeting):

- ✓ A discussion on key “performance indicators” and “drivers” for your business. These are the 20% of the activities that produce 80% of your income.
- ✓ A list of targets of the most *common* areas I’ve found where small business owners overpay in taxes, where they can improve their net take home pay, and specific “target” areas that can send up red flags to the IRS.
- ✓ A detailed analysis and discussion about your business’ finances, profits, and taxes.
- ✓ At least three tax strategies that I will identify from looking at your last year’s tax returns. Tax strategies that can *reduce* your taxes and put more money back in your pocket...right now.
- ✓ Answers to all your questions.
- ✓ No pressure to become a client. We will just share with you helpful information that’ll help you run the business more profitable.

- Call (800) 401-4284 to book your meeting.

- E-mail this page to robc@cruise-associates.com

- Fax this page to us with your contact information below at (402) 562-6134

(We will never rent, sell, or give away your contact information.)

Please complete the information below:

Contact Name: _____

Business Name: _____

Address: _____

City: _____ State: _____ Zip: _____

Office: _____ Cell: _____

Fax: _____ Email: _____