

BUSINESS MADE EASY[!]



Episode 06

Jason Answering a Listener's Question

Full Episode Transcription

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G'day g'day, Jason here from the Business Made Easy Podcast, where we Make Business Easy.

Wherever you are in the world, whatever you're up to, I hope you're keeping out of trouble and business is heading in the right direction for you. We've got a great episode today because we're going to be answering the question from one of our listeners.

Before I get into that though, I wanted to just thank you; for those of you who have been listening and have been providing feedback to me on the show, thank you so much. It's really appreciated because with that information, that feedback, I can certainly improve the show and make sure it's a great show for everybody and really hitting the mark in terms of what you want to know as listeners out there in the business world.

It is a business podcast, it is by definition designed to make business easy, so we certainly want to make sure that we're doing that for you. The downloads and the feedback that we have had, have certainly exceeded our expectations for this early stage of the show, and it's thanks to you for your support, and I really appreciate you. Thank you.

If you've been listening to the show and you haven't yet, please pop over to iTunes if you would like to leave a review because it's those reviews that do actually help promote the show within iTunes and help other people in business find the show. If you haven't done that, I'd really appreciate it if you do think it's worthy to go over and do that; that'd be fantastic.

Today's show, it's just me today, but I'm going to be answering a question from one of our listeners, Sam as I said earlier. Sam has just started out in business down in New South Wales, which is in Australia, and he had a question that he's come in and asked. How he did that, he went over to our website at businessmadeeasy podcast.com, he pushed the record button there and then he was able to leave his question which I got from him.

I'll play that question in a second, but before I do, it was such a great question that I've decided to dedicate the complete episode to it because there are so many elements and components to the question that I thought to give a true answering, I guess, if you like, for want of better words, we really needed the time to cover off on the various elements of it. I'm going to do that now.

What I might do now is play Sam's question, and then I'll come back and answer it. Here's Sam.

Sam:

Hi, Jason. I'm a new business owner from New South Wales and I'm wondering in your experience, what are the biggest challenges you see your clients face when they're starting their new businesses?

Jason:

Sam, thank you so much for your question; it's a great question, and I will answer it by breaking it into five components that I see; my top five.

There's an enormous amount of challenge in any business but these are the five most common ones, and I think the five that if you do properly and get

them sorted from the outset that you'll have a lot more success and a lot less stress in starting out.

The biggest one I'll start with, number one, is the lack of planning. I say that because if we get into the mindset of a new person starting out in business, when someone comes to me typically, and they're starting out in business, their eyes are normally nice and bright and they're passionate about what it is that they're about to go and embark upon. Whether that be making widgets or whatever it is, they've got this great idea, and it's going to shoot the lights out, and it's just going to be a hit from day one. That is fantastic if that happens.

What I do see behind that is no planning whatsoever. It's a great idea, they know how to implement the idea, but in terms of assessing whether it is a great – whether the marketplace wants that idea or not or whether or not they can get suppliers for that idea or how that's going to work or where would they market that idea; there generally isn't a lot of planning; particularly more so in the financial aspects of it as well.

It's just so critical that you plan right from before spending a dollar. It's a lot cheaper to sit down with a piece of paper and a pen and a few hours of brainstorming at the very least before it is committing dollars – hard earned dollars to something that's potentially going to be a time bomb down the track.

That would be my – my critical thing is planning. I covered it in episode number four of the show, and there's a link on the website; on the homepage

actually, to a business planning template. By planning, I mean at the very least sitting down and doing a business plan about what the vision is of the business, the marketplace it's going to operate in, what your customers look like, the strengths and weaknesses and threats of the business.

The template and the guides I've got over there in episode four and in the downloads; I've got a step-by-step guide on how to do it. At the very least, I think if that planning is done correctly, you know when you start off down that road what you are in for. The better you do that planning, the better clarity you have as you start off in business. I would thoroughly encourage that, and that's probably the biggest area that I see a lack of planning.

The other thing just on that planning too is that having the courage to pull the pin on the idea if the planning is showing all negatives or if it's really not stacking up, really either dig deeper and make sure that data are right that you're assessing and evaluating. If it does prove to be correct, have the courage to pull out or re-jig it some way. Don't just carry on blindly because you really want it so badly. We can often get caught up in the idea of something being right, and we just get clouded and blinded by our own optimism. It's not a great outcome if you go down that path. Make sure you do proper planning, can't stress that enough.

The second area that I see, and I questioned whether to put this number two, but I will. It's the lack of clarity around the roles within a business. When you get into a business, and you start out in a business, there are many roles that every business has, and I like to break them down into three key areas. I got

this idea from Michael Gerber and his book, *The E-Myth*, which is a fantastic book, and I'll put a link over in the resources section of the website.

In that book, Michael Gerber breaks the three components down into the area of a technician, and the technician is the doer of product. They make the widgets; they make the goods and services that that business is selling. If you're working in a paint-making factory, then you're making paint and running all the operations of making a paint, getting the materials in, putting it all together. That's the doer or the technician of the production area of the business; we'll call that production.

The other area is then the marketing; sales and marketing section of the business, and that's finding customers and finding marketplaces to sell your products and identifying all those key areas

The third element is the management aspect of the business, and that's making sure the bills are paid and the rents paid, and we've got the premises to operate out of, and we've got a bank that's collected – helping us with our financing and funding and all that sort of thing. That's the management; running the staffing, making sure we've got human resources and that's all done in the management side of things.

We've got three key areas; production, marketing and management. I think if you put those three headings at the top of a page, you will see then that you can drill down further, to further roles under each of those headings in the business.

Now, when you're starting out in business, you don't necessarily have someone to fill all those roles, and you quite often are the person doing everything. If you look at a small sole trader that's just starting up in business, or someone who's just got an idea, it's their first business, and they don't have a lot of money, they don't have money to go and employ a lot of other people to do these things. What happens is that they don't clearly identify these roles at the outset before starting. The problem with that is that you don't - each of these roles has different needs and different skill sets required to do them. The marketing person wouldn't know how to make paint in the paint manufacturing business. The marketing person wouldn't know how to wire a powerpoint in the electrical business necessarily. They've got different skill sets and different requirements.

Where the problem happens for the new business owner, because they don't have properly trained people in those areas and they haven't identified those areas and those areas needs in the business, then you get this conflict that happens between them. You'll find that you'll have something, or you might have an ad that's supposed to go out on Facebook for your business, and that's the marketing department. But, because you're busy over in the technical section doing something else working on making whatever it is that you're making, and you forget to do the Facebook ad etcetera, and then you drop what you're doing there and go over and do the Facebook Ad, and then another fire pops up over here in the management area. You end up with this real conflict between roles, and they're all in your head; you're the one doing them all.

It starts off okay while you're passionate; when you start out in business, you've got energy and enthusiasm and passion for what it is you're going to do. When you get into it, and these little fires keep cropping up, you keep running from one to the other and trying to put it out, and you're going, "God, this isn't what I had in mind."

So many people I talk to go, "Wow, being in business is so different to the idea of being in business. I didn't realise there was so much involved." Again, this is why the planning is important and doing these steps, I think, is critical.

How you overcome this problem is that by clearly identifying those roles and knowing what those roles are and how much time of your week they need, you then sit down and plan when it is that you're going to work on those particular roles.

For instance, for me for example, in my business, the accounting practice, what I do is I set one day aside per week. That's my day of the week where I'm going to be working on my business on the marketing side of the business, on developing new things for the business. That's one day a week that gets that attention and nothing else enters it in that day; that day is just purely for that.

What that does is it frees me up to move forward and grow, and only focus on what's important for that day. I clearly identify key times during my week when I'm going to be working on each particular element, so I know if I'm working on a marketing task, or I know I'm working on a management task, or I know I'm working on a production task. That's what I would encourage a

new business owner to do as well, is to identify the roles and work out and identify when you are going to work on each bit. Each role does need attention, and if you neglect one of those roles for too long, that's when the fires keep cropping up, and that's when you'll start getting stressed, and cracks will start to appear.

It's not enough to go, "I'm just going to work harder, and it'll be okay because I'm passionate about this," it doesn't work that way. It will erode that passion quicker than you realise, and your eyes will be going from nice and bright and positive to really sunken and deathly in a matter of no time at all.

I encourage you to look at the clarity around the roles within your business and identify those with clear job descriptions, preferably; what this job entails and why it's important and what skills are required in that role as well.

The other thing I would do while – just while I'm on that before I move on, is I would also – just on the skills of each role, clearly mark out what skills that you have for each of those roles, and compare them. I've seen some business owners are really good at doing the technical stuff, but they can't do the management stuff and the marketing stuff. As you grow, they're probably roles – the first roles that you're going to outsource as you go along, and they'd be the critical ones that I'd be looking at outsourcing. If you're stronger on the marketing then focus on the marketing, but then maybe you might employ to fill the technical roles or the management. You might get a bookkeeper in for instance if you're no good at the management or accounting/finance role. You might get someone in to help you in that area first, and that just helps you prioritise the order in which you bring new skills

into your business as well. That is important to do as you can financially afford it and keep growing. That's that area.

The third area I really feel strongly about, and that is fully understanding your numbers. Understanding the numbers in your business could not be more important, and that is understanding what the profit and loss statement is telling you; having one for a start is critical. Having a profit and loss statement, having a set of financial statements that you can read and understand, that tell you exactly what is going on in your business at any given point in time. It's not enough to wait until you go to the accountant at the end of the year to do your annual tax return to file to the tax office or the IRS depending on your country. It's not enough to wait to go and see your accountant. You really should have some form of management accounts along the way that are giving you accurate information about what's going on in your business and what those numbers are telling you.

I see that as a big area that people do fall down in and have a challenge with when they're starting out, they just don't realise the importance of having that done properly. Not so much not just having it, but reading them and understanding that behind each of the numbers in those financials, there are drivers that are driving the results that are coming out. You need to drill down there, and I generally recommend a dashboard type report if possible that can show you in a glance what's going on. That's a big one.

The fourth area is cash flow management and budgeting; proper cash flow management and budgeting before you start your business. Now it becomes a challenge later when you start a business because lack of proper cash flow

budgeting, you are basically driving a car blindfolded. If you think of – the best way I like to think of cash flow is it's a map, it's a plan of where your business is heading and what money you're going to have in your bank account along the way at each particular point in time. The better you do this, the closer it should be pretty well correct, and the better you will have a feel for what's going on in your business.

If you can do a proper cash flow planning budget for no less than 12 months ahead of time, then as numbers are coming through on your business – so you've been reading your financials as I talked about in point three; you'll know pretty well if this result happens in my business, this is going to be the cash flow outcome, this is how it's going to affect my cash flow down the track. You'll be able to monitor that as you go along, and it's going to give you great signs and great signals of where you're going to have any potential pitfalls and that sort of thing.

It really does highlight potholes and potential cash flow shortages where you might need some extra cash to run your business for whatever reason. It is an area that I do see that new business owners – it's not actually new business owners either, to be honest. It's an area that I see probably – it's probably one of the most common problem challenge areas for business, is always managing cash flow. Cash is like fuel in your car, if you think of your business as your car, the petrol in the car is a cash flow and that's what keeps chugging along.

As your business grows, that means your cars getting bigger, that means you need more petrol, more cash to run your business. Your cash flow budget will

highlight just how much you need, and we might do an actual episode if that's of interest to people; going forward we might do an actual episode on some processes, and I'll put some templates up etcetera to help people to do better cash flow budgeting. It's a critical one, that one.

The fifth area, Sam, that I find people struggle in business, challenge wise, is inadequate start-up funding capital, or inadequate money to start your business. They really do fail to have enough backing behind them to get their business going, and that is where they struggle because when you're starting a new business, it's a very stationary item. It's sitting there on the road ready to go, and it needs petrol in the tank and a little bit like cash flow, you need to know that you've got enough fuel to get you to the next petrol station. The next petrol station is the next lot of money coming into your bank account from customers etcetera, so think of it like that.

A couple areas I see wrong here. Firstly, not calculating how much working capital they need, or working out how much they need, and then when they do get it, they don't structure it correctly for their needs. Now, let me give you an example of that. Let's just say we've done our budgeting, we've done our planning, everything's worked out, everything's added up, and we've worked out that we need \$50,000 in our bank account to start off our new business venture. That'll get us going and get us making some sales.

We could structure that a number of ways, but let's just say we went to somebody and said, "We'd like to borrow \$50,000," and they said, "Okay, we'll give you that \$50,000 for three months, and it's at an interest rate of 25%." If I haven't looked at whether that's going to be correct for my

business, I could be in for a real lot of pain there. If I get to the end of that three months and my business is still taking time to get going, I don't necessarily have that \$50,000 to repay at that particular point in time.

This is a real problem, I've seen businesses come into me, and they've been totally ill-advised in terms of how to structure the working capital requirements for their business. It has hurt them big time in terms of not having the – (a) it's been expensive and (b) just totally inappropriate payback periods and things like that. I can't stress that enough, getting that working capital right, should you be leasing the equipment or should you be borrowing from a bank or whatever it is that you're going to do; you really need to make sure you've got that foundation for your cash flow and working capital down pat as well. That needs to be done correctly.

That's my fifth one, Sam, that I see people struggling with. I do think, as I said, there are more out there, I mean we could have covered off on staffing and all those sorts of things as well. I think really, these five here when I look at them; if you sat down and got those correct in your business you would take like 90% of the struggle out of starting a new business, and you would maintain your enthusiasm and passion and energy a lot more as well too. It's just something I see all the time, as new business owners start off and just fail to implement these bits.

Just to recap, the big areas are lack of planning, so making sure you do the appropriate business planning before you start spending money and committing yourself to lock yourself into a business. Make sure you get clarity around the roles within your business and make sure you're

understanding of those roles and what skills you have to add to those roles and where you're going to need to outsource. Fully understanding the numbers, the profit and loss, the balance sheet, what's all that telling you in your business. The cash flow management, what's your bank account going to look like going down the track as you go forward. Then inadequate funding to start up, making sure you've got enough money in the bank and its structured correctly for you to make sure that you can get further down the road and achieve success in your business, and that's a critical one as well.

There you go, Sam, I hope that's answered your question. I thank you so much for asking that question. I do think there's a lot of people that could benefit from it and that's why I've dedicated this whole show to just answering that one question because I do think there's a lot of components in there that can help other people. Sam, for asking the question I'm going to be sending you out a Business Made Easy Too Easy T-shirt which is going to be coming your way, so we'll be in contact with you shortly to get that out to you.

For anyone else who has a question in business, please feel free to go over to the website – to the businessmadeeasypodcast.com website and you can record your question. I will get the question sent to me via voice message just as Sam did, and we'll get an answer on the show for you as soon as we possibly can.

If you haven't already, please feel free to subscribe on iTunes to the show. We do value you listening, and we're thrilled to have you with us. The easiest way to do that is to go over to businessmadeeasypodcast.com, and you can

subscribe over there, and there's a lot of resources and things like that that we're going to be building up on the show over there, so feel free to go over there and have a look around. You can subscribe to iTunes and Stitcher over there on the website and just feel free to drop me a line also if you've got any questions that you'd like answered or just want to say g'day.

Okay, that's it from me this week on the show. Thank you so much for listening, I do appreciate you listening and appreciate your time. Whatever you're up to this week in business, I hope it goes well for you, and you stay safe, and here's your success.

Thank you for Tuning In

We hope you enjoyed this episode.

If you have any feedback or questions about the content in this episode please don't hesitate to drop me a line at jason@businessmadeeasypodcast.com I would love to hear from you.

Other things that you might like to help grow your business.

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Thank you again,
I appreciate you!

*Regards
Jason*