

# BUSINESS MADE EASY<sup>!</sup>



**Episode 56**

## **What's Wrong with My Business**

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Good day. Good day and welcome to the Business Made Easy podcast where we make business easy. Jason Skinner, your host here on the podcast that is all about giving you a better business, making more money, and having a better life as a result. Thanks so much for joining me. How are you doing? I hope, ah, everything is going well out there whatever you're up to. If you're driving in the car, uh, I hope the traffic is not too bad or, uh, working out at the gym. Uh, that's some -- that's a foreign place I haven't been to for some time.

I've got to tell you, I got to get back into my health and fitness side of things. I really have let that slip of light. I'm actually going to do an episode, podcast episode on being healthy in your business because it does make such a big difference and it's an area that I've got a, a hand on hot, put my hand up, and uh, confess that I have been a little lacking in lately.

We got a great episode today but before we get into that, if you have not already joined our free Facebook community, please feel free to do that over at [businessmadeeasypodcast.com/community](https://businessmadeeasypodcast.com/community). I would love to welcome you over there in the group. So, it's a free Facebook group of business owners and entrepreneurs that are all doing things and sharing ideas, et cetera. So, yeah, feel free to, to jump on there at [businessmadeeasypodcast.com/community](https://businessmadeeasypodcast.com/community).

And before I get into today's show, if you have a question that you would love answered just to help you along with your business or even if it's an idea that you wanna flash around or something like that, feel free to always drop me a line at [jason@businessmadeeasypodcast.com](mailto:jason@businessmadeeasypodcast.com). I'm helping listener's questions. If they'll send me an email in, I'll certainly answer your questions and help you to, get over that stumbling block that you might be, you might be experiencing in your business.

Also, if I answer -- if it's a fairly detailed answer that we need, we'll actually make a podcast episode out of it. And I do love to share listeners and case studies and experiences on, on the show as much as possible because it really does help to take away the theory and put into place some practical application and I guess you can learn from others. I'm a big lover of learning from others and other's experiences and traps and trials and things that they've had along the way as well.

So, feel free to drop me a line at [jason@businessmadeeasy.com](mailto:jason@businessmadeeasy.com) and I will be waiting there to help you and I answer all my emails myself. I also do have my support team. I do answer mail. I do control my inbox and answer my emails so feel free to, to do that. If you're new to the show, welcome. Thank you so much for being here. Just remember to hit that subscribe button and that'll make sure you get each episode as it comes out each week. I release them on a Friday morning at around 6:30 am Australian time. So, it's gonna be Thursday evening in the states and it'd be going into the evening in the UK as well, I believe so.

Alrighty. Let's get in today's episode. We are going to have a case study today and, with the permission of these people that I helped recently they've given me permission to use this information so there's no confidentiality breaches here. I always ask permission to do that. I'm going to keep their names and relevant details, anonymous anyway.

But, I thought it was really interesting case study in how you can get out a kill to with your business and how you can really struggle along in it. It deals with the area of cash flow and profitability, etc, and you'll see how just hoping for the best really isn't a good idea in business.

We have the situation with many businesses that I see where and not just ones I see, they'll all out there, but many businesses where people are really good at what they do but they're not necessarily good at business or, running a business, or understanding the fundamentals and dynamics that are going on behind the scenes.

Thankfully they don't because then I wouldn't have a job. Then we wouldn't have a podcast, see but in all seriousness, I do like to teach people these skills because when you understand and know these skills, you really get a good feel of what's going on in your business. And it gets that way after you practice these skills and things over a period of time that you can actually just by talking, I can actually sort of get a feel for someone's business and what's going on and it's just through asking some relevant questions.

I don't even need to see financial statements initially and that's because over time you learn to see what the drivers and the metrics that are in business that, are causing different results and different outcomes with people. So, just through asking questions and that sort of thing as a preliminary, you can get a pretty good feel of where to start looking and start digging down in a business to find out where it's performing and where it is not performing or what problems are arising.

And this case study today of, of William and Laura, is an interesting one because they had a business which was quite seasonal in nature so it has peaks and troughs seasons and that can be good and bad. It's good in the peak season because obviously the, the money is flowing in and the sales are happening and it's a busy time for all but, in the off season, in the quiet season, not so good because you're sort of scratching around and wondering what to do.

And so it's sort of you get from feast to famine in, in that sort of businesses and there's a lot of those around too particularly in say, agriculture and farming and then a lot of physical, um, bricks and mortar type businesses as well can suffer that type but William and Laura had this business and it was a product -- I'm not going to reveal any details -- but it was a, fairly solid product that was packaged and sold. So, you could go in and buy it off the shelf as well so you could physically go and buy their product but you don't necessarily need their product all year round.

And, when they came and saw me they were just not sure of why their business wasn't performing. They were getting sales. They were moving stock but they just seem to never have any money in the bank. And always seem to be sort of putting their hands to their mouth in terms of, you know. They just get on top of things and then slip back again and they really weren't sure about what to do.

So, I sat down with William and Laura and we just had a chat and discuss business and it turned out that their business was quite cyclical. So, they did have sort of these peak times where their product was in need and they were, supplying it. But then they had these other periods of time where it was fairly quiet. And so, we sort of had a chat about that and how that worked and I'm just going to sort of take you through the approach that I went through with them to help them through to come out at the other end with a better understanding of their business and a more profitable and bigger bank account at the end of, the day as well.

But, pretty well the very first thing we sort of sat down and do is just to get an understanding what the business was about. What did it sell? Who was it's customer? And how long they'd had the business and the trading history.

I like to get to know what loans and bank debt and that sort of thing are around. Are we paying off leased cars, and equipment? You know, where is our money actually going? So we sort of wanna get a bit of a feel for that. But after sort of getting a general overview, it became clear that they really didn't know how much money they were making in each sale that they were making.

They said they really had no idea of their break-even point. Now, the thing with business is that, it's not so much the dollar value of what you sell. It's not the sale value of what you sell that is important. Although it's not the critical number I should say, it is important obviously. But, it's the margin that you're making on that sale and the money that's dropping you out of the bottom of the business when you are after you pay all your overheads and all your bills and things like that.

So the very first thing that they had no idea of their break-even point. So this is the point where the very next dollar in sales that they actually make is actually going to now start generating profit. And that's a really important calculation to do in understanding your business because up until that point, you are still paying for your overheads and your costs and all those sorts of things.

So, you aren't actually making money until you get to that break-even point. And then once you get past the break-even point, the point past that up to where your sales are that is your what we call your margin of safety. So that means you're buffer if you like, that you now are in front and you're starting to generate good, profits from. So, I mean these guys, just had no idea about and understandably, but they had no idea about their break-even points. The very first thing we needed to do is sit down and work out exactly where their break-even point was in their business.

So, we sat down and we did that and for the previous financial year. Now this is a calculation that you need to do all the time and I did an episode on break-even point back in episode forty. Go to [businessmadeeasy.com/episode40](https://businessmadeeasy.com/podcast/episode40), you'll come across, that episode and I talked about break-even point in-depth in this. I'm not going to get too bogged down in, in how to do it. Today was more of the process of what we did to help them.

So, once we identified their break-even point, we've realized that their margin that they were sort of making was a little bit on the light side and they could be making more from each sale than they actually were. So really, I mean that was, that itself was a refreshing number for them to learn because they could know that they had to get at least that many sales per week or month or whatever it is to actually be able to make money, generate a good profit.

So the very first, I guess, action point out of that was calculate the break-even point, work out what they were doing in sales and where they sort of set that, they're clearly too low. So we look at pricing strategies in that instance for them and worked out how to increase their prices and add value to their transactions without actually sort of causing any reduction in their margins at all. So really really important point in step one is to sort of know what that break-even point is.

Where they wanted to look at, so increasing the process itself was enough to increase so that had a knock on effect obviously to improve their margin and how much they're making on each sale which obviously improved their profitability and the money that was dropping out of the bottom.

But the next thing we wanted to sort of look at was because of the seasonality of their business that we wanted to see where the peaks and troughs were in their cash flow because with the bank account, it's like a bucket of water, there's money coming in and out of it. I always use the analogy of you car and you know, as the business gets bigger it's like the size of your car. And then the fuel in the tank that's the cash flow going in and out of the car.

So as your car gets bigger, you need more petrol, more cash flow and we spoke in-depth about cash flow back in episode seventeen and also on episode fifty two where I discussed the difference between cash flow and your profit. So you can get those by going to [businessmadeeasy podcast.com/episode52](https://businessmadeeasy podcast.com/episode52) and then the same with [businessmadeeasy podcast.com/episode17](https://businessmadeeasy podcast.com/episode17) for more info on cash flow. But it was really, it was really important for uh, William and Laura to work out exactly where the peaks and troughs were happening in their cash flow. 'Cause they got no idea whether they could, they could use the money to live on or whatever.

So I sat down and did a detailed cash flow statement for them. And we absolutely mapped out based on the prior trading history, mapped out a road ahead for the next twelve months and what that would look like, 'cause it's so important to have this document because you can see before it actually happens um, a cash flow statement gives you this, the ability to be able see where the peaks and troughs are in your cash flow and where you're going to need more cash or where it's not so important to carry as much cash where you can either payouts and dividends or put some reserves away or whatever.

And what became really apparent for William and Laura was that when I did this, when I went through this part of the equation for them, is in those peak times

leading up to those up to those peak times, there was a big I guess timing difference between when they have to pay for their actual supplies, to pay for the products 'cause they have to stock out.

They know the peak time's coming so they've order ahead, so they've got stock on the shelf. They cannot sell it if they haven't got on the shelf so they would order up. But the way they were, they're more or less paying virtually cash as though ordering for the goods and services, for the the goods that they're buying in but when they were going to -- so that, that was money going out of the bank account but then it would take time for customers to come in and buy the goods and then take some time to pay and then you know as things going with, with customers terms.

So it was a big disparity but money was going out but it was a long time before it was coming in. So, they'll face with the sort of a dilemma there, they're either had to go to their suppliers and say, "Hey, um, look, we've been buying from you for a fair period of time. We've typically paid cash, can we get sort of more favorable um, trading terms?" So you know, that was an incentive there to, I guess for them to be able to keep the cash in the bank longer so they didn't have to pay for the goods so soon.

And then the other option as well was to get their customers paying more timely. And that's where you need to look at what's the average number of days that your customers are taking to pay you. And I spoke about that in both those cash flow episode as well, fifty two and seventeen. So that was an important thing and what were able to do there with, William and Laura is actually look at tightening up their trading terms with their customers.

We realized that they weren't going to lose sales because they ask for their customers to pay on the spot. But they just weren't doing it. They were having the business is always just had trading terms and you know, there's a thing, it's the customers just take their time to pay and they'll get away with whatever they can while you let them.

So we had to do some work there once we'd identified the cash flow peaks and troughs. And we're able to tightened that up which meant that they were able to pay for their goods, take thirty days to pay for their goods but they were able to get the cash sooner rather than later back into their bank account once they've sold them. So really critical that the those metrics are looked out and cash flow statement budget really does work well.

One of the options on the table for William and Laura also was to look at some form of cash flow funding during those peak times or drought times if you like, where, where they needed to have that extra cash to keep their overheads and things pumping along. I mean the business was profitable but there were times where there was just not enough money in the bank and they were finding they were having to put money in- out of their own pocket.

And one of the options that you can look at there is an overdraft facility with your lender, with the bank and I say overdraft here very cautiously. I'm not a big fan of overdrafts because what I've seen historically, is that they, never get paid off and they turn into long-term debt. The whole concept of an overdraft is a short-term funding facility that the bank give you at an interest rate which is usually higher because it is short-term and not largely secured. It's a lending facility that gives you the, the cash, the fuel in the tank if you like, to get you to the next station.

So it's just a short-term loan that you can draw on to fund and pay for your purchases. So, in this case if William and Laura, weren't able to negotiate the trading terms with their suppliers and they weren't able to change the way their customers were paying and they were still having these peaks and troughs, this is where an overdraft may have been suitable fix for that problem to give them the ability to trade through that difficult time.

And then when the profits and cash coming back in, you pay the overdraft back but it does, you got to know it does have interest on it. And what I typically find is people don't manage them very well. They don't pay them back and that's why I would strongly recommend if you did look at an overdraft type facility that you look at it in conjunction with doing a cash flow statement.

A detail cash flow statement so you can see before it all happens, before you spend the money, before you borrow the money where it's going to get paid back and how it's gonna get paid back et cetera and you've got an understanding of the true cost of those facilities. But yet, tend to be our last resort the overdraft if possible, but in this case we didn't need to.

We were able to negotiate those trading terms and more favorable trading terms and be able to help them out that way. So, there's too many things that we've been able to do to help them. Firstly, find out their break-even. Find out where it is, at what point they start making money and, and how can we improve that margin. And, we're able to worked out that there was some scope for price increasing and we were able to do that.

Now, I do have some complex modeling that can go on behind this and I do have some really useful tools that I use to actually model this sort of thing for you.

But, it's really about giving you a general concept today of how this works. So the break-even as said, and then we looked at their cash flow and adjusted their trading terms and made sure that their trading terms were working. And the other thing that -- the third point and, I guess, the factor we're really able to help William and Laura with was they weren't doing anything majorly with their website and the website part of the business.

Now, if you think historically in a business that's quite seasonal in particular, if it's a quiet time, in one country or one location, because of the season or with the weather that that's, about then it might be actually a peak time in another country and vice versa. So just because the physical trading conditions where you are a one way, it doesn't mean that, they're that way everywhere. And so there's geographic considerations to think of like you know, can your product or service to be sold to a broader market outside of your immediate area? Can it be sold over the internet? Is it something we could market online and actually take to a greater audience and in your typically quiet times, can we sell that item in a busier time so in a busy time somewhere else?

So this was something with William and Laura we did work out that, that their website was pretty well atrocious. It wasn't a mobile friendly or it wasn't sort of you know, ready to do anything great with. And so we, we sort of sat down and mapped out a strategy, a digital strategy for them whereby they could now bolt that into their physical business and really grow and take advantage of, of the online marketplace as well.

And that has just been an absolute game changer for them and their business and there's still a long way to go with it. And that we're still brawling a lot of it out but even the early results of just having a freshened up website and

everything sort of happening and falling in place and e-commerce systems and things being put in to be able to mesh with the physical business so that, it can all happen seamlessly.

It doesn't matter where sale happens. It could be online or in a physical sense on the walk in traffic. There's one system that can cater for all aspects of that. So, that's a really important thing that they've been able to do as well. So William and Laura, I've got to say are extremely over the moon in terms of what's happened, for them in terms of their business.

So I really have been able to turn that around and cash flow is starting to come back. They've got a plan as well. They can sit down each month and look at what they budgeted for. What they projected was going to happen and then with their growth and the like and then they can actually compare to what they actually did because with the whole thing we've got them doing now also is regular financial statements.

So they actually have a bookkeeper who prepares the financial statements for them and we have given them the tools, et cetera to analyze that data or and be able to get some meaningful information from that data rather than just prepare financial statements for the sake of it which we don't wanna do because let's face it, accounting is boring enough.

We don't need to be just preparing accounting numbers for the sake of it. We want to be able to read them and get some information from them and make informed, strategic decisions from those numbers. So there you go, William and Laura, just some simple steps there.

We did their break-even. We looked at their cash flow. We mapped it out what it was looking like. Where it was falling over? What we could do to ask some questions around, what we could do to improve their cash flow. What ideas we had that we could improve their cash flow which we came up with the adjusting the payment terms and the customer's terms.

And also a digital strategy in terms of being able to take advantage of the technology and the webs, the web well, dealt with them. I don't think that's technical term, but the online world where we're able to sort of expand their geographic location and their demographics so yeah, it's just a win-win or answer.

There you go; there's some of the benefits of, I guess getting in and analyzing your business and, working out what's actually going on under the hood. And if you've got any questions on that at all, as I say, you can always drop me a line, [jason@businessmadeeasypodcast.com](mailto:jason@businessmadeeasypodcast.com). Love to hear from you and I hope that's given you some practical things that you can do for your business to get it running and ticking along nicely as well. It is really like turning dials at the end of the day, business. It's really -- you just get one dial right and then you'll listen a bit more, go along a bit more further and listen again and you get to adjust, adjust another dial and it really is getting that recipe right along the way.

It'll always change the business world is changing all the time and I have a saying that if I was going to -- if I'm gonna sail around the world, you just sort of set your sailing boat up and then sit back and just float around the world. Your basic -- the weather conditions are changing all the time. You have to change your rigging. You have to change your sails your spinnakers and all those.

I'm not a very nautical sort of person but that's a good example I think of business as well in a good analogy that you -- that the business environment is always changing and you've got to be changing with it. And that's why you got to love what you do as well, you know? You gotta be passionate about it and dynamic and get in there and really give it a good make, produce the results that you're after.

Alrighty, well, that's all I had time for today. Thank you so much. If you've enjoyed this episode, please head over to iTunes and hit me up for a review. I would love, love your feedback, it helps with the show. It helps the show get found and I always love to hear if you're enjoying the show too because, the last thing I wanna do is produce a podcast that you're not enjoying.

So I'm here for you and thank you so much. I'm here to help you. Just drop me a line at [jason@businessmadeeasy podcast.com](mailto:jason@businessmadeeasy podcast.com) and until next week, I'm gonna hand you over to Mia and she's gonna take us out. Take us out, Mia. Here's to 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](mailto: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*