

WHY AM I NOT MAKING ANY MONEY?

This is one of my favorite questions that I get from many clients and other small business owners. Small business owners always want to know “where has the money gone?” My accountant tells me that I am making money – why do I never see any of it?

My usual approach in addressing this question is to first avoid the often confusing and sometimes complex answer of accrual and cash basis accounting. The owner is interested in cash – that is what makes his/her world function?

So – in addressing this question the first response must be to look at the Sales or Revenues that the business generates – this is MAKING MONEY! (at least when the receivable gets converted into cash). Establishing this is an easy process.

Next – what happens to these funds? The first major cost for most businesses is either the acquisition cost of the products that are being sold or the direct costs of people involved in generating the revenue (in the case of a service business such as a Spa). This is yet another easy set of costs to identify and measure.

Are we making money yet?

At this stage we can then identify a very significant number – either Gross Profit on product sales or the Contribution Margin on services. This is the cash that the owner actually has control over!

THE BIG QUESTION – how does the entrepreneur spend these funds in order to end up with more dollars in his/her own pocket? These dollars have to cover the costs of rents, utilities, communications, supplies, office and other support staff, professional services, vehicle costs, and the other expenses that one incurs in operating a small business.

THE REMAINDER – these are the funds that remain for the owner – to be taken either as salary or as profits given tax and other considerations.

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CHALLENGE: The major challenges facing any small business owner in ensuring that they end up with the appropriate funds in their pocket may be summarized as follows:

1. Focus your efforts on generating sales for your product or service – no sales equals no cash and no business
2. Ensure that you maximize the margins you earn on your products or services. Too many entrepreneurs attempt to “buy the business”: without realizing that when you earn margins of 50% and give a 10% discount to buy business that you are actually giving away 20% of your margin – a huge amount!
3. Spend the remaining dollars very carefully – frequently the reason for not having the cash is having a **SPENDING PROBLEM** - too many costs for the size of the business.

In the final analysis one of the major reasons for not ending up with cash is not having a proper **PLAN!** A well thought out spending plan for a business that is monitored and measured in a monthly basis will assist the owner in meeting their objective.

The overall objective is to earn as much as is reasonable for the owner – you do not want to end up working for nothing! Good luck and make money.

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