#51: Planning for Profit in Your Business

Full Episode Transcript

With Your Host

Debbie Sassen

You're listening to the *Mastering Money in Midlife* podcast with Debbie Sassen, Episode 51.

Welcome to *Mastering Money in Midlife*, a podcast for midlife women in business to overcome financial anxiety and make more money without burning out or sacrificing their families. Join Certified Life and Money Coach Debbie Sassen, as she shares practical business strategies and mindset shifts that help you dissolve the money blocks that keep you stuck in a cycle of under earning and under saving, sabotage the growth of your business and prevent you from building the wealth that you desire.

Hello, my friends. Welcome back to the podcast. I am recording this podcast on the new moon. It is Rosh Chodesh. In Hebrew that is the beginning of the new month, the new month of Cheshvan. The last month was full of Jewish holidays. I was very busy with my family, and now I have this long, luxurious time to have a little bit more work-life balance, and be in my business.

For many of my listeners, who are also Jewish and observant, this works for you, too. Since it's a time of new beginnings and renewals, I want to remind you that I am offering a free four-day training called, Money school. The day that this podcast drops, we are already on day two. But that's fine, you can sign up right now.

And even if you cannot join me live, you'll get links to all of the replays. So, pause the recording, head on over to my website, DebbieSassen.com/moneyschool. That's one word, no hyphens, or underscores. DebbieSassen.com/money school. Sign up, join me in Money School. It is a free four-day training.

We're working on your money mindset, money healing for the limiting beliefs, and maybe angst and dread you have about money, or maybe things you've been repressing and pushing away about money, but they are stored in your nervous system. And we're also going to get practical and deal with some money mechanics.

And that, in fact, is the topic of today's podcast. And that is planning for profit in your business. If you have a business, the purpose of your business is to make money. Of course, you offer the services that you do, you sell the products that you do. But in the long run, if you want to be a going concern for many, many years, you have to be making money in your business.

Even a nonprofit wants to make money. They go out, they fundraise, they receive money, and then they give it away as donations. You want to make sure to focus on the money in your business, what is coming in, what is going out, and making sure that you are paying yourself a wage, making sure that you have profit in your business.

But before we get to the specifics about money, let me just back up and tell you a little bit about financial mechanics. First, we're gonna start with personal finances. Because if you are a business, your business is here to make money, to serve your personal life.

We don't want your personal life to be here serving your business. And the money that you have in your personal bank account to be transferred over to your business, and to be funding your business for a long period of time.

So, let's talk about the principle of “pay yourself first.” This is a common way that financial planners and money coaches recommend that people plan for money in their households. What that means is, let's say you have a salary. We're not even talking about business income, at the moment.

But let's say you have a salary; the money comes into your bank account from your employer. I'm going to use $10,000 throughout the podcast today, because it just makes it very simple. The money comes in. In the Jewish tradition, we put aside 10% of our after-tax income for charity, for donations, what we call tzedakah.

That's money that we separate off the top. I don't even consider it that it's my money. So, if I were to receive $10,000, $1,000 is automatically set aside for tzedakah. I now have $9,000. “Pay yourself first” means that from that $9,000 you put money in savings. That savings will be for expenses that I know are going to happen. Today, I'm recording this podcast, in the fall. But next summer, I might want to take a vacation with my family. Or, you might have children who you want to send to summer camp.

In fact, two of my boys went to summer camp this past summer. And I want to make sure that I have money in savings to pay for summer camp. And then, of course, there are always the unexpected expenses that happen.

Maybe you'll need a car repair. You'll need to pay for some dental expenses. Your glasses will break. You might have to travel unexpectedly, to go visit a family member who is either having a celebration or is maybe need some medical treatment, and you want to be by their side.

Life happens, expenses happen. And we want to make sure that you have money set aside for the unexpected things that always come up. Sometimes we know when those things are coming up, like summer, next year, 2023. And sometimes we don't know when those things are going to come up. So, we always want to pay ourselves first.

In addition, when you pay yourself first, you want to put money aside, in your investments, for that future you. Those are also expenses that you know are going to come up at some point in your future. Whether it is 65, or 70, or 75. Whenever that will be, you might want to either slow down in your work, retire altogether.

Whenever that's going to happen, you want to have money set aside. It's going to be able to take you through your retirement years, your golden years. We must be putting money aside. And if we continue to push that off for next year, five years from now, 10 years from now, thinking; oh, I'm gonna get to it sometime. I guarantee you; it is never going to happen.

So, you must pay yourself first, both your current self and your future self. And then, whatever is left in your household, that's the money that's going to cover your housing. Like, mortgage or rent, your electricity, your food, your water, clothing, gifts, transportation, all of the household expenses.

But always, always pay yourself first. Put money aside, and take care of those things that you know are going to happen in the future. Even if you don't know the exact amount, you want to have that nice financial cushion set aside. So, that's what happens in our personal bank accounts, and with our household budgeting.

Let's take that same model and apply it to your business. And what I'm going to talk to you about today, comes from Mike Michalowicz, who wrote the book *Profit First*. What Mike noticed happens over and over and over again, is that the general accounting way of looking at your business wasn't working for so many businesses.

The way your accountant or your bookkeeper might be looking at your money is that you have income, you subtract your expenses, and what is left is your profit. And what Mike noticed, is that business owners didn't have any profit left at the end of the day, because for some reason, the expenses in the business always grew to equal the income.

In fact, sometimes expenses even grew above income. And so business owners weren't in profitable businesses. And that's a really tough place to be in, over and over and over again. So, Mike said, let's take this and flip it on its head. Money comes into your business, you set aside profit first, before you even consider your expenses. And once you've set aside profit, now you know how much money you have set aside for the expenses of your business.

You're just going to have to adjust your expenses, in order to meet the amount of money that is left in your business account. In fact, what Mike Michalowicz suggested, is that you actually have five separate bank accounts. I'm going to say, as a business owner who lives in Israel, it is difficult for me, with our financial system, to actually have separate business accounts, like that many business accounts, because of our banking system.

I use an Excel™ spreadsheet in order to manage it. I also have accounts in dollars and in shackles, and that can complicate it. But we're not going to worry about those complicating factors, at the moment. You can organize everything on an Excel spreadsheet or on a Google Sheet™. It means you have to be a little bit more invested in the process of managing your money, but that's okay.

Business owners need to manage money. They need to know what is going on with their business and with their money, to ensure that they are profitable. Also, so they can plan and strategize for the future. So, these are the five accounts that Mike Michalowicz recommends, in his book *Profit First*.

Number one, you have an account for your income. The second account is for your profit, and you've set aside money in a special account for your profit. And that is money that will be reinvested in your business, in the future. Sometimes it's going to be for expenses that are known, and sometimes it's going to be for expenses that all of a sudden happen.

They just pop up and you want to have that financial cushion, to give yourself some breathing space so that you're not always chasing your tail. You know, and having to do sales and launches and just running after money. It's very energetically draining, and exhausting to be continually running after money.

The third account is taxes. When you have money coming into your business, always set aside taxes second, profit first, taxes second. I can't tell you how many business owners I have worked with, who have been in business for a year, three years, five years, and have never set aside money for taxes.

Now, there is no judgment here, there is no shame. Jumping into a business, starting it, creating it, putting yourself out there and telling the world like, hey, I have something to offer you. I can help you. Come pay me money. That is a huge step. There is so much involved in building a business, it is overwhelming at the start.

Many people don't get around to doing the taxes. When you figure out that it's time for you to work on the taxes... And if you haven't done it yet, and you're listening to my podcast, commit to doing it today. The longer you push it off, the more the fines are going to grow, that you're going to get, you know, fined from the tax authorities.

And also, the longer you push it off, it makes it more difficult to sort of pull yourself out of the hole, and come clean with the tax authorities. Usually, the tax authorities are not going to come after you. They just want you to pay the money that you owe them. Sometimes you might be able to negotiate and ask for a payment plan.

Or, they might even give you a reduction. It could be possible that they would still be open to giving you discounts because of Corona. I don't know, you have to deal with your tax authority, in your country, and where your business is set up. Nevertheless, taxes are a part of life. Taxes are a part of your business life. Make sure that you have money set aside in a tax account.

Okay, so let's just go over this and recap: You have three accounts already. Number one is your income account. Number two is your profit account. Number three is your tax account. What are the two that are left? Number four is your owner's compensation. These are the wages or the salary that you're going to pay yourself as a business owner.

Some of the new business owners that I've worked with have said to me, “But I don't have profit yet, in my business. I can't pay myself a salary.” And, this is what I recommend: It could be $50 a month, it could be $100 a month. And by the way, this goes for your owners compensation and for your profit. Start where you are.

If you read the book *Profit First*, which I recommend, and I don't get any affiliate income from this recommendation, so just go do it; buy the book.

Nevertheless, download it; you can find it on Kindle®. Start where you are. In the book, Mike Michalowicz has targets for how much you should be setting aside in each of these categories. Based on how much you are making in your business.

But start where you are, and improve, move towards the target a little bit at a time. It's like if you have never exercised before, and you decide that you're going to run a marathon, all of a sudden you put on your tennis shoes, you go out of your house, and you go running 26 miles. No, you're gonna like, kill yourself. No, figuratively speaking… If you do that; you can't go from zero to marathon overnight.

Similarly, you can't go from setting aside nothing for profit, or setting aside nothing for your salary, if you haven't done it before. You can't go from zero to all of a sudden, the specific targets that are recommended in the book. So, just start where you are. If you're used to setting aside $1,000 a month for your salary, and you want to move the targets a little bit, then start doing it again a little bit at a time, maybe you'll move from $1,000 to $1,100. But just start making the move.

And again, if you know how much money you need in your household budget, that will help you tweak the amount of money that you want to set aside in your owner's compensation, in your business account. So, we've covered now, four accounts; income, profit, taxes, owner's compensation.

What is the fifth account? That is your expenses. We all have expenses in our businesses. It could be the podcast, for example, that I'm recording right now. It could be your Zoom® account, if you're working with Zoom. Or, Canva®. Your accountants and your bookkeepers need to get paid. You might be hiring copywriters, website designers, social media managers, you might have assistants.

Or, if you have a large coaching program and you have coaches working under you, and you're paying them, you have expenses. You always want to make sure that your expenses are the money that is left over in your business bank account, after you have set aside money in all of those other accounts.

I want to go back to the question of paying yourself a salary, because I said you want to do it a little bit at a time. And the reason why you want to start where you are today, already setting aside some money, is because it signals to your brain that you are a business owner. Your business has been designed to make you money. You become the business owner who takes a salary in her business, by doing it in baby steps, a little bit at a time.

Could be $100 a month, and then $200, and then $500, then $1,000 a month, as your business becomes more profitable. And then, it could be $2,000, and $5,000, and $10,000 a month. The numbers matter less than the fact that you are creating a new financial identity for yourself as a business owner, who earns a salary from her business.

And again, whatever is left after you've set aside money for your profit, your taxes, and your owner's compensation, that is the money that you have for your expenses. Now, the question comes up, you might say to me, “Well, Debbie, I'm at the beginning of my business.”

Or, even if you're further along in your business, “There are things that I want to invest in, in my business, and I don't have the money. I can't pay myself a salary. I can't set money aside in a profit account, because I need the money for expenses in my business.”

And here is where I want to invite you to consider the beautiful benefits of borrowing money, also known as debt. Debt is a beautiful way of borrowing money from your future self, borrowing money from the future income streams in your business, in order to acquire something, get something, buy something, that you want today.

Let's use, for an example, a computer that you want for your business. Maybe you didn't set aside money in your profit account. Your laptop is 10 years old. I had this situation a couple of years ago. I was desperate to get a new laptop, because my 10-year-old laptop was so slow, it was painful.

And, I was probably at the risk of the whole laptop crashing. So, I needed to invest in a new laptop.

I had money set aside, that wasn't a problem. But let's say you're in a situation where, all of a sudden, your computer just like blanks on you, and it cannot be revived. And you need to get a new laptop, and you don't have money set aside. It's not a problem. You can borrow money.

Your laptop is going to last you for like, three years, four years, maybe seven years. There's always new laptops and state-of-the-art equipment coming off. But if you took a loan and you paid it off, month-by-month, over three years or five years, while you're still using your laptop, you're really investing in an asset that is going to serve you very well during the course of your business.

Now, a laptop is not going to help you to grow your income. It's an expense that you have. And it's something that for those of us who have online businesses, and even those of us who don't have online businesses, you pretty much need to be connected to the computer world and the internet these days, in order to run your business effectively.

But let's say you want to really do something that's going to help you grow your business. For example, you want to invest in a coaching program. You guys know that I am invested; I'm part of a business mastermind. I also run my own business mastermind, but I invest in my business mastermind every six months.

It's really important for me, because I know that through my investment, I can grow and scale my business. I learn new things. I think more deeply about my business. I really change the way I show up as a business owner. I have a community of peers. I think about myself differently. My self-concept, of myself as a business owner, as a money manager, as a coach, changes by virtue of being in my business mastermind. I really see my mastermind as an investment in my business.

Similarly, if you wanted to invest in a certification program, or a mastermind, or you wanted to learn new skills that are going to set you up for future growth in your business, that's an investment in your future. And if you think about it, for example, people who go to law school or medical school, and even college, many people cannot pay outright for that education.

They take student loans, they borrow money, and they pay that money back over time. The same thing can happen in your business. If you don't have the money right now, for an investment that you want to make, you can borrow money from your bank, from your credit card company.

You know, we're not talking now about the best way to borrow debt, but I want you to think about the benefits that could accrue to you, over the long term, if you borrowed money and invested in your business. I'm not suggesting you do that. You can always reach out. We can have a conversation about it, or an email discussion about it.

What I want to do, is suggest that as a business owner, we do borrow money sometimes to invest in our business, and grow our businesses bigger, faster, smarter, for the future. I love the example of Steve Jobs, who started Apple® in 1976. In 2004, meaning 28 years later, Steve Jobs called together all of the employees of Apple, and he celebrated the fact that they were finally out of debt.

You and I, we look at Apple today, and we're thinking that company is big, it's beautiful, it's a multinational; it's one of the largest multinational companies in the world. But Apple also had humble beginnings. It was a continuous cycle of borrowing money, investing, growing the business, borrowing money, investing, and growing the business.

Nothing went wrong. The company continued to be profitable. It took them 28 years to pay back the debt. And here we are another 18 years later, and Apple is still a beautiful, big, thriving, profitable company.

If you choose to take on debt to grow your business, this is where the debt repayment becomes one of the expenses that you have in your business. So, when you have income coming into your business, and let's go back and recap those five different accounts: Money comes in, let's call it $10,000, because you know I love that example. Let's say, to make our math super-duper easy, you put $1,000 in your profit account.

I'm going to set aside $3,000 for your tax account. Taxes, depending on where you are in the world, could be around 30-40% of your business income. So, let's say we're putting another $3,000 aside in profit. So, that's now $4,000 altogether. Let's put aside $1,000 for owner's compensation.

So, now we've set aside $5,000, and now you have $5,000 left for your business expenses. One of the line items, in your expenses, could be debt repayment. Whether that was $500 a month or another $1,000 a month, whatever it is, you want to make sure that you are looking at your expenses and managing them correctly, so that you can pay down your debt.

You can keep the lights on in your business. Pay your suppliers and your vendors, and everything else that you need in your business. All right. If you have any questions about how to plan for profit in your business, reach out to me and ask me a question.

It can get a little bit complicated if you're not a numbers' person, and this is the area of your business that you just want to push under the carpet, or avoid and not deal with until another time. You can reach out to me by email, Debbie@DebbieSassen.com.

We're also going to be talking about this topic during Money School. So, I want to remind you to sign up: DebbieSassen.com/moneyschool. I look forward to seeing you there and helping you to make more money in your business.

All right, my friends. Thanks for tuning in. I will see you next week. Bye for now.

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