



The Money Business

By Mike Hulser

When you embrace the idea that you're in the money business, you will enjoy enhanced profit and cash flow

In my first meeting with the leadership team of a new client business, I like to ask them to tell me about the business—what “business they are in.” The answers are generally the type you might expect: “retail,” “gifts and notions,” “custom framing,” “customer satisfaction,” etc. Only once in a great while does someone shout out the point I want to make, “the money business!”

It is so elementary that it sounds funny when you say it out loud, but many teams I have worked with haven't effectively kept this key point in mind. The point is that if you are in business, like it or not, you are in the money business. For-profit businesses exist to make money, and they do what they do to earn a profit. Non-profit businesses need money to fund the critical services they provide to their communities. Basically, money is “the fuel” of their business.

Most entrepreneurs I know got into the business they are in because they carry a passion for it. Just as they drive the business, the business drives them. All too often, however, the passion that entrepreneurs have for their business does not extend to the numbers—the financial plans and results of their business. This can lead to problems, big problems.

Recognizing that “you're in the money business” can help business owners make sure that the numbers are being tended to. The numbers are fun generally to those of us in the financial profession and are generally not the fun part to pretty much everyone else.

Because of this, all business owners need to make sure that if they aren't able to mind the numbers themselves, they need to have someone on their team who “lives in the numbers” and keeps identifying and communicating the financial issues and opportunities. This is a critical function that can't be overlooked. This role should be played by the company's controller or accountant, who should exhibit a strong curiosity about the what and why behind the numbers. It can also be played by a numbers-oriented spouse or even an adult child.

Examples of things to watch in the numbers include:

- Multi-year sales growth or decline by major customer, sales rep, and product line.
- The same thing for gross margin rates.
- Monthly inventory turns by SKU.
- Weekly sales, margins, sales by rep, and inventory change.

Establishing a Mindset

Getting a management team to buy into thinking in terms of “the money business” will likely take a bit of work on the part of a business owner. The following should help:

- Make a portion of the management team's compensation based on profit and/or cash flow.
- Make sure every management meeting includes money subjects.
- Continuously speak from a position of making

money.

- Equate “creating customer value” with “earning a profit.” Earning a profit means customers are willing to pay you more for your product offerings than your cost of operating the business. Thus, you are creating value.
- Make sure your team understands that a financially secure company is almost always a better place to work in any number of ways.

Using the Mindset

Once an owner gets a team bought into “the money business” concept, it can be a useful tool in solving problems, making decisions, and assessing potential opportunities. It can lead to asking the following kinds of questions:

- “If we spend \$20,000 fixing that problem, how much more money are we going to make? And exactly how will we make it?”
- “Our current facility isn't that great, but if we upgrade it how will we do things differently to provide a payback on the investment?”
- “We can either implement the new production control system or initiate the new marketing campaign, but we can't do both. Which do we think will contribute most to increased profit? And how much risk or variability is there in the numbers in either case?”
- “If we want to enter that market, we need to understand what it will cost us and how much money, if any, we can make and how quickly. What will the competition do? Will margin rates be unfavorably impacted? How much inventory investment will be required?”
- “The saw is worn out. What do we do? Refurbish it? Buy a used one? Buy a new one? What are the 'puts and takes' of each case?”
- “Our profits are sagging. What is our best move? Squeeze our suppliers? Attempt to push through a

price increase? Reduce prices to go after more business?”

Managing from a Money Perspective

A few final ideas as to how you can keep the money business concept in mind and to use it effectively:

- A lot of financial concepts are important to the health of your business, but the two that sit somewhere near the top are inventory turnover and gross margin rate. Don't allow dead inventory to build up. Liquidate it somehow. Keep pressure on margins. One point of margin for a \$1 million business is \$10,000 of pure profit annually.
- Evaluate issues and opportunities in terms of “What do I give versus what do I get?” Remember, one potential course of action is to simply do nothing. Some problems might cost less than their potential solutions. Also, if you are going to spend money to make money, you want to get your money back soon. A payback period of three years or less is suggested.
- Depending on your margin rates and your variable selling expenses, you want a marketing program to drive at least five times and preferably at least 10 times your marketing costs in sales. It is, of course, a bad idea to spend \$50,000 in marketing to gain only \$100,000 in sales.

The money business is the business you are in. Embrace that idea, place importance on it, and use it, and you and your team will enjoy enhanced profit and cash flow. ■

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