The Carpet Cleaning College

LETS GET SERIOUS

Carpet Cleaning Success
For Newbies

www.carpetcleaningcollege.org

Day 5 - Your Finances

There are those who believe that love makes the world go round.
AAhhh bless. That is so sweet.
Nice thought, but love won't put food on your table, and you can't pay your workers with love either (well, you're not supposed to anyway.)

Money **makes the world go around, and since money makes the world go around, strong businesses who provide and generate the money, the jobs and pay the taxes, must therefore make the world go round.**

It is essential for you to understand your figures will make or break your business. More accurately, your understanding of your businesses' financial matters will make or break your business.

IMPORTANT: Doing a great job for your customers and looking after your customers is actually your #2 priority; as a business owner the money issues in your business are your number #1 priority. Always. Only if a job is going to be profitable should you look after the customer well (but *only* if they are paying you a profitable amount of money!)

I got this the wrong way round with my first business (I put the customers as first priority) and I went bust. Now I put the numbers first, and I am thriving. Go figure, huh? Literally.

Be in no doubt you *must* master your finances to be a real success in business.

Cash Flow Forecast

Money may _not_ buy you happiness but in business liquidity, or available cash, will buy you a whole lot of things and ensure your business' longevity and growth.

There is a famous saying … "Turnover is vanity, profit is sanity, cash is king."

And never a truer word has been spoken.

Many businesses go bust every year simply because they have no cash flow; that is to say they have no money in the bank to pay their immediate debts as they become due.

Sure, a business *may* have £30 million *owed* to them to be paid in 3 months' time, of which £25 million of it is pure profit, but if they haven't got the £100,000 in the bank they need to pay the rent ***now***, they could still lose everything, even with such a large amount owed to them.

"Usable" money in the bank is a vital component of your business success.

A cash-flow forecast is a crucial financial management tool which helps you plan your cash flows to avoid a potential liquidity crisis. What this forecast shows you is how much money you expect to have coming in and going out of your account over the coming months and years. Here are the top 4 reasons why you benefit from carefully studying your cash flow analysis:

1. It predicts shortcomings, as it draws an alarm signal once your revenue (income) is starting to become lower than your costs.

2. It ensures you are always prepared for the payments you have to make: salaries, utilities, suppliers etc. and helps you prioritize them accordingly.
3. It keeps track of accounts receivables and of incomes from clients, which helps you distinguish your most valuable clients.
4. It keeps your investors and lenders satisfied.

Cash-flow forecasts usually cover different periods of time, from 30 to 90 days or can even cover a whole year. Depending on your company's stability, you may choose the version that best suits you. If your business is struggling, you should require daily updates from your finance team.

Here are some pointers to help:

- **Profit is not the same as cash.** Even if you make a significant sale, you cannot actually *use* the sale amount until you have been paid.
- Accounts payable are still debts and you need to track them as you would any other payments that impact cash-flow. ***Vigorously***.
- Profitable companies you do business with may go out of business when they have cash-flow issues, so monitor closely your clients' payment deadlines.
- Negotiate hard on all your commercial terms
- Do not get blinded by the idea of selling something, as not all sales turn out to be beneficial (as we saw with my builder friend earlier.)
- Analyze your clients. If you have a major client that makes up for a high percentage of your income, consider finding additional alternatives. You may not want your business to depend on just one or two other businesses.

- Play with the cash flow forecast, and see what happens if a major client delays or withholds payment and then see what happens if you lose them as clients.

Don’t think your business plan or idea is above all these financial metrics. That is a major mistake. I lost a business because I simply didn’t know my numbers. Yet as soon as I started my second, I vowed to watch my numbers daily, and now all my businesses are thriving.

Be in no doubt that your business success is in the numbers.

Break even analysis

As an entrepreneur, break-even analysis is of great significance for you. While, from the outside, break even analysis may “just” be the moment when a company makes absolutely no money, for someone starting a business, the break-even point is their first objective: the moment when costs equal revenue.

Term Check:

Fixed costs – those costs that you have to pay, regardless of whether you sell a single product or service unit. These are for example the rent on the premises, the permanent staff wages, and other regular bills.

Variable costs – those bills that rise with the quantity sold. In the example below we run a burger joint, so our variable costs are the burgers, the buns etc etc

BEWARE: some items like labour can be partly fixed, partly variable, as you may have to have someone at the premises at all times whether you have any customers or not (fixed costs) but when you are busier than normal you may need *additional* staff (variable costs.)

The next step after an organization reaches that precious breakeven point is usually the one towards profitability – the purpose of every healthy business. Once the fixed and variable costs are paid for, then the rest goes towards profit. It is a fact that a company needs a certain level of sales to cover its costs. To calculate the actual timing when that business may break-even, you must understand and assess fixed and variable costs.

Let's say you own a burger bar company. Then, you might have the following costs:

Fixed Costs (monthly)		**Variable Costs (monthly)**	
General Labour	£1,500	Bread buns	£0.50
Rent	£1,500	Meat	£2
Insurance	£200	Cheese	£0.4
Loans	£400	Vegetables	£0.5
Car payment	£300	Fries	£0.5
Equipment	£1,340	Oil	£0.3
Utilities	£232	Gas (for delivery)	£0.5
Total	**£5,472**	**Total**	**£4.60**

What you understand by looking at the figures above is that you have to place your final pricing higher than £4.60, which is the variable cost of each burger, to *start* to cover part of the fixed costs as well, so, at the end of the month, both fixed and variable costs are covered, and above that is profit.

If your price for the burger menu is £16, then, for each burger sold, £11.40 goes towards covering fixed costs and then towards profit (£16 – variable costs £4.60)

So, to work out your breakeven point, you need to sell 480 burgers monthly, which is 480×4.6 = £2208.00 + fixed costs of= £5472.00 = £**7680**

To ensure this is correct, 480 x selling price (£16) = £**7680**

Breakeven is also a great tool to help you understand what your final pricing should be. For example, if you raise your prices but keep the costs the same, you will pay off the fixed costs quicker and more quickly head towards profits (unless you start to lose customers due to the price rise.) Here is the graph that shows the above sums. Where the two lines cross is the breakeven point.

Burgers Sold	0	50	100	150	200	250	300	350	400	450	500	550	600	650
Variable costs	0	570	1140	1710	2280	2850	3420	3990	4560	5130	5700	6270	6840	7410
Fixed costs	5472	5472	5472	5472	5472	5472	5472	5472	5472	5472	5472	5472	5472	5472