

9-11-20 Understanding the 3 Basic Terms of Business Finance

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Hey everyone, welcome to another episode of legendary leaders. I am super happy that you are joining me today. You know, I spent that huge miniseries right those those episodes of 11 going through those mistakes that we make as female business leaders that really prevent us from making the money that we want to make. And, you know, have a couple of different things that I teach within legend leaders about finances because finances are important. You know, in the same way, if you want to purchase a home, or buy a car, and you actually want to keep possession of those meaning you want to keep your home and you don't want to have to have your car repossessed, then you have to understand how to manage money effectively, right, and you have to learn how to pay those bills and, and be responsible. Well, it's the same theory in business, and how a lot of people who chat with me off and on about business finances, and it's a really good topic to go through. But one of the things that I wanted to share with you today are the fundamental things you need to know about business finances. You know, a lot of us steer clear of finances. And we've talked about this in the past because, oh, well, you know, I don't have an MBA or I haven't had that experience or whatever, right? we tell ourselves different reasons for why we're not good when it comes to financials.



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And I would tell you that if you are good in general, with finances in your personal life and you manage money, well, you put it in the right place, you pay your bills on time, you should be able to manage your business finances at the you know, at the start, now, it's going to get complex and that's when you're going to ask for help, you're going to get a

bookkeeper and maybe a CPA, you're going to maybe have a finance team at some point, depending upon the size of your business. But all in all, you can start today if you're just starting out, managing the finances of your business on your own, and it will be very similar to understanding your personal finances. But there are a couple of terms that you need to understand because I know just like you that When I started in the third terms financially that I didn't understand, there was this desire, I'm not going to say the action because I didn't do it. But there was a desire to not ask the question or, you know, to look around the room to see if anyone else understood what this person was saying. And if there was confusion that I would have considered asking the question, if there was ever, you know, everyone looking around, solidly understanding what that finance person was saying, I wouldn't have raised my hand. Now, I thought through that, I would think that every time like, how am I gonna ask this question? How long have I been in this role? Do I have an excuse to ask this question? You know, we do this all the time, especially if you've been in the corporate world, you wait and ask a question depending upon your surroundings. And if you feel as though the group expects you to know those answers, but I will tell you this, that there is no expectation of you from a business leader. There's no expectation that you know all of the details about business finance There is an expectation once you start to run a successful business that you understand Business Finance, which means if you're going to run a successful business, you need to start understanding business finance now. So you can create a successful business. Don't be the person in the room wondering, should I ask the question? Or have I been doing this business too long to be able to ask and seek clarity? There is, you know, there's no time but the now. Okay, there's no time. But now, ask the questions. Learn it, it's okay. There's nothing wrong with it. And like I said, I would look around and I would try to gauge and judge, can I ask the question, and then eventually, I would just okay, what's the answer to this? or What does that mean? Or I'm not following what you're saying here. I would just have to ask because I couldn't run my part of the business if I didn't understand what they were talking about. And so you can't run your business if you don't understand the basics of Finance. Okay. So let's get you where you need to be. Let's talk about a few key terms. I'm not going to go into all the things that I teach about finance. I do have a course. that incorporates financial details and just the basics of finance, if you want to check that out with legend leaders, but let's just talk today about the key fundamental terms. Let's talk about the terms that you need to understand. There are a lot of different terms. But I've picked out the basic three. And you probably already know them, but let's just talk about them really quickly. Okay, let's just build your confidence. Let's talk about revenue for a second. So people call it revenue, or they call it cash flow. It's all the same. Ultimately, what you're talking about here is sales dollars coming in money coming into your business, okay? cash flowing in to your business, right? Making money, revenue, sales dollars that you've generated off of what you're selling, right? So, revenue, cash flow, all of that is money coming in. money coming into your bank account. Pretty simple. It's a favorite, our

favorite thing to measure, right? And I would tell you that as you create Your business or you're trying to take your business to the next level, you need to focus on revenue targets. Okay? What do you want to achieve? Botwin? It's really important to understand. Now the next thing that I want you to think about is profit. So if we understand what revenue is, and that's money coming in with profit, profit is the money that is left over after you pay your bills, okay, so revenues have money coming in. And then what I what I do is I pay my bills and I pay off everything that I owe in my business. And then what's left over after that, is technically profit. If we're keeping it in the most simplest terms, that's considered profit. Now, I just mentioned another term, and I call it out. This is term number three. It is your expenses. Okay? When I said pay bills, the way you're going to describe that in your business is expenses. business expenses, is the reoccurring cost that you have to run the business But it could also be non reoccurring costs. It could be one time building maintenance or annual insurance renewals. It could be taking out a client to lunch, right? Those are business expenses. And so ultimately what has to happen is to create a successful business, you have to generate enough revenue to cover your expenses, and then have profit leftover, because what you want to do eventually is take that profit and reinvest it so you can continue to grow. Okay. Now, another question that I commonly get is, well, what about my payroll, Katrina? Where does that fit in? Well, that's an expense, if you're going to pay yourself out of your business, and I highly suggest that you do. Now how much you pay and how often you pay yourself and all those different things. That's a conversation for a different day. But overarching Lee, you've created this business to become your primary source of income I would imagine. And so because of that, you want to be able to pay yourself so you need to look at that. Your payroll as part of a business expense, lump it in with the expenses, and then figure out how much revenue you need to generate on a monthly basis in order to cover all your expenses. Right. That's why I talk to you about revenue targets. And that's why I just said that a few minutes ago, you have to have a revenue target in order to cover all of your expenses and figures figure, okay, figure out what you're going to do next. So you may have a running list of things to buy or invest in or purchase as your business grows, if you don't create one. So you have several things now, but what's the next person that you want to hire? What's the next tool that you want to invest in, put it down, and then as you create your targets, put that expense into your monthly expenses, although don't spend it yet, put it in there to calculate how much revenue you need generate on a sustainable basis. That has to be sustainable to pay the bills, right? You cannot go and buy a brand new car. For example, right? Let's say you just graduated from college, and you need a car, you go buy a brand new car, but you don't have a job. You're not going to pay for that brand new car, unless you are paying for it out of your savings, right? But let's assume you don't have that you're going to try to make monthly payments. Well, where's your money going to come from? You have to have a personal cash flow, which is a paycheck. Same exact theory for a business. And that's why I said if you are reasonably good with personal expenses, you should be just fine getting

your business expenses started. And then at the point where you don't feel comfortable anymore, you feel like you have a lot more questions than answers. Then find someone and have them start doing all that work for you. Okay, perfect. So that's my challenge for you today. That's where I want to leave you is understanding just the three most fundamental terms in business finance, understanding how you can run your business finance, sort of similar to how you on your personal finances, assuming you're good with that, right. And then figuring out what your what your list of Next purchases or investment should be in your business so that you can start setting revenue targets to get you there and they got to be sustainable right? So I would strongly recommend that you not go purchase that new tool or hire that new person until you've hit that revenue target at least three months in a row or exceeded it. Okay, you can hit it or exceed it, but you can't be below it. Because below it means you cannot afford to go spend the money on that next level of investment, right for your business. All right, thank you that go apply it. And of course as always, go and be legendary.