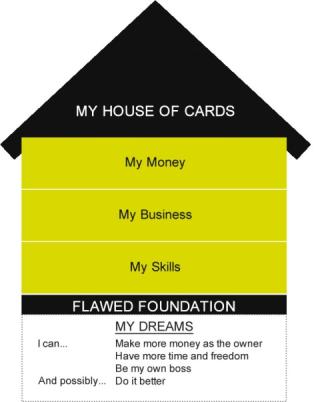
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**WHY ARE WE HERE?**

Unfortunately, the research says, according to the Australian Bureau of Statistics, that more than 92% of small businesses in Australia fail before their 11th business anniversary. Even more tragically, 52.5% of them fail in their first three years of starting out and 76% fail within five years. A truly horrible statistic is that up to 25% of all businesses trading in their 10th year still go broke.

**WHY IS THIS HAPPENING?**

These business failure rates are obviously not good enough. The Australian government isn’t educating you on how to master your business. The Australian government would like to know, but they don’t know either. They’re politicians. They’re not Business Masters.

What I hope this book is about is to teach you precisely, is what you need to know so that you can start to slowly but surely competently and confidently move away from the cash flow cliff edge.

The House of Cards Realities…

1. 76% of businesses fail in years 1-5
2. 16% fail in years 6-10
3. 92-96% world-wide do not make year 11
4. 33% of failures due to cash flow

**Government Study of 2,200 failed businesses**

1. No Strategic Leadership skills
2. No Business Planning
3. 66% had poor financial management

Unconscious Incompetence

***“We don’t know what we don’t know”***

When you look at the image above, the “House of Cards: Realities,” you can see is the reason we all go into business. In this image, you can also see the failure rates we’ve just been talking about. It also shows you a government study of more than 2,200 bankruptcies. In that, it talks about the following three key issues.   
 **Three Key Issues in Business Failure:**

**Number One:** There were no strategic leadership skills.

**Number Two:** No business planning.

**Number Three:** 66% of all bankruptcies had poor financial management.

If we can help you to manage your money and your life, then for two thirds of you that will actually make sure you don’t fail in business, and have to walk away in despair.

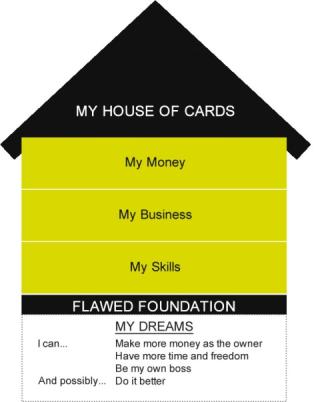
**WHY IS IT THAT SO MANY BUSINESSES FAIL?**

There’s some logical factual insight now, but if you look back at the House of Cards image on the last page, what you’ll notice is that we all start out from what we call a “flawed foundation”. As you know, if you’re building a house, you must have a solid foundation. But for some reason, when we look at that diagram, what we can see is that business owners or start-ups and entrepreneurs don’t necessarily even know the huge difference it would make to have a successful foundation instead of a flawed foundation.

So if you look at it now, it says, “I could make more money as the business owner rather than an employee. I could have more time and freedom. I could be my own boss, and I could possibly even do it better than the boss I’ve got right now. So, therefore, my skills mean it should be my business, and if it’s my business, it’ll be my money.” Now that’s a great rationale, isn’t it?

That’s a rationale to stir up our motivation and our inspiration because profits (theoretically) are much better than wages. The problem is that it is not a recipe for success. That’s why 92% of businesses worldwide (not just in Australia) are tending to fail. As you can see below; we have quite a journey ahead to change from your House of Cards Realities to what we call “Best Practice”.

To achieve Business Mastery, you must do what Business Masters do. Each module we teach in the Best Practice Business School is designed to empower you to build a solid foundation, and then to develop the key competencies required to achieve business mastery. On the right hand side at the bottom, you can see we want to move from a state of mind where *“we don’t know what we don’t know”.* I think this is the most dangerous state of mind – when we don’t know what we don’t know, we can literally walk head first into a financial or a business brick wall and not see it coming.

When we **know** what we don’t know (as seen in the diagram below) we start to realise there are a whole bunch of competencies, capabilities and attributes that you need to learn to actually master your business - no matter what business or industry you are in.

Unconscious Incompetence

***“We don’t know what we don’t know”***

Conscious Incompetence

***“We know what we don’t know”***

OR…

A HOUSE OF CARDS…

Do not feel overwhelmed when you look at all of those competencies, in reality they are just skills. Consider it as if you are a builder simply adding more tools to your toolkit, or a restaurateur adding clever strategies or items to the menu, to help make you more money.

When you learn a new “recipe”, or when you learn to apply a new skill or “tool”, what you’re really doing is increasing your own knowledge and skills base. It is no different to learning the knowledge and skills you’ve already collected in the past. It’s just building onto that more. It’s as simple as that.

When you want to master a business, the competencies and attributes you need don’t necessarily have to dramatically increase your overheads or headcount, or your employee base of turnover, or even your running costs.

What you should do is learn these competencies, learn these skills as you see in the bottom of your workbook or on your screen. Okay. Let’s move on now.

We’ve given you all the stats and facts and the all too high probability of failure. We want to move beyond those government statistics. We want to be the exception to the rule. My mission in life is to teach you how to do that.

**WHY IS CASH FLOW SO IMPORTANT?**

This is an issue that needs to be highlighted. Getting a grip on your cash flow is extremely important.

Cash flow is one of the single most limiting factors to your success when it comes to running a small-to-medium business. In this book, we’re going to focus on the key factors involved to ensure your cash flow isn’t holding you back from achieving your business goals.

1. **Lack of Strategic Leadership Skills:**

You’ve seen the statistics from the government study of more than 2,200 bankruptcies. The first thing picked up on in this study was a lack of strategic management or leadership skills. Consider how this effects you? Why is it so important?

Strategic management and leadership skills are the knowledge, insight, foresight and the intuition to make really difficult decisions. Easy decisions are simple to make in business, aren’t they? Difficult decisions are incredibly hard to make. For example, you realise you have a particular product or service that you love and enjoy delivering to customers, but it’s actually costing you money to provide. You really need to cut it from your menu or list of available services. It can feel tough to knock back a customer when you feel that you need the work, and you also need the money.

Another very hard decision is sacking an employee; telling them that they must go and find work elsewhere because they’re not really working out for you. Despite the fact that you may know you’re correct, it’s very emotionally taxing to make that tough decision. What about sacking a client, letting go of a client who also isn’t really working out for you? They might be expecting a lot and only paying you a little and they also pay you late. They could also be doing all of those things and not even treating you well. They may have fairly unrealistic expectations of what they get for their money, which is really bleeding you dry. These are the things I’m talking about when I say, “a lack of strategic management or leadership skills”. Those are the really tough leadership actions or decisions to make.

1. **No Documented Business Plan or Strategy:**

A documented business plan or strategy isn’t a one-time event. There really need to be a 30-60-90-day, a 3-5-year, and a longer term strategic plan. When we look at these things, we really need to understand where we’re going. Everybody’s done a business plan from a napkin to a fancy document, somewhere in that spectrum haven’t they?

The reality is that we do the business plan once, and then we often put it on the shelf where it starts collecting dust. It’s often not used as a guiding frame of reference or roadmap. What we recommend is that within every single 90 day period, you know exactly where you want to go.

The major problem is the reason why even 25% of businesses fail in their 10th year before their 11th anniversary. It’s that they never migrate safely away from the cash flow cliff edge over time which means it is only a matter of time before they run out of money. There are some incredibly important financial and money disciplines that we must teach you and you must learn, so that you can avoid being in the 92% majority that fail.

Insolvency experts tell us that if you can build up a “cash buffer”, a “cash safety net” or reserve of approximately 13 weeks of trading. This means that if some unexpected catastrophic change occurred to your business that meant no income was coming through, you would still have your cash buffer. It is almost impossible for you to then fail. You’ve migrated away from the cash flow cliff edge and get over the hurdle to have a 13-week buffer in a reserve account.

You obviously wouldn’t spend that and go back to the cliff edge, would you? So the idea here is how can we slowly but surely migrate away from the cash flow cliff edge? Now I’m sharing this with you right now because we’re talking about the three big reasons that businesses fail 99% of the time. We talked a moment ago about business planning. In business planning …if this is progress and this is the time it takes to achieve some progress, what do we really need to achieve?

We might be here right now. We might really want to be here today, which is going to happen at some point in the future. Okay. This is where we want to be. This is where we are now. Now, here’s what’s interesting.

Having no business plan or strategy I almost like heading off on a road trip in the middle of the night without a GPS, a printed map or any smart phone with a mapping system, and relying completely on your intuition, your sense of direction and sign posts. If you had a very long journey in an unfamiliar and vast geographical distance, what’s the likelihood that if you left at midnight, you could get there in the shortest, most efficient, most direct possible journey? It’s not very likely, is it? You’re bound to make a few wrong turns along the way because you haven’t yet set yourself up with all of the right tools. So the first thing we learn from the facts of that government study that we keep mentioning, is that you need some competencies and skills, and some business planning. You need the right tools.

We need more than just the mapped direction though, we also need the headlights. Once you know where you’re going, all you need to see is the 400 metres down the road that your headlights can light up for you on the highway. Once you’ve travelled that 400 metres, you can see the next 400 down the road as your lights show you the journey ahead – bit by bit.

That’s exactly the discipline you must get into your mindset when it comes to business planning. You must have a strong long-term vision or a destination of where you’re really going – Nirvana, the ultimate outcome, your ultimate goal. You must have a crystal clear vision of that. If you don’t know exactly what that is, then perhaps talk to us about how we can show you to clarify that and really get excited about the journey and understanding how to achieve it.

Then, what you must do once you’ve got that clear vision, is to be very serious about the next 300 metres or the next 90 days, every quarter. We want to aim at something we can do to achieve progress us in the next 90 days. We can’t do everything. We can’t go from here to there if it’s substantially a long way to go in a short period of time. But, we can refuse to overwhelm ourselves with anxiety and stress by simply and logically focusing on the very next step.

If all we can do is achieve one physical progressive change at a time to the way we do business, the way we motivate ourselves and do things on a daily basis, it’s a positive start. If we can change one habit, implement one strategy, learn one system, one tool, one recipe, and then bed that down as a habit, it’s a forward movement. Now why do we have to bed it down as a habit? If we do not make a habit of it, we’ll try and learn too many things at once, and none of them will become exactly the way we should do business. They could become a short-term quick fix, which is a bit like going to a seminar with a keynote speaker and then going back to work, isn’t it?

You can go to that seminar. Get really excited. Go back to work, and a year goes by and you didn’t make a lot of change. You did a few things, but not everything you wanted. So then, another speaker comes out to a city near you.

You go and get all motivated. You go back to work, and time passes again. Are we really moving towards dramatically progressing to achieve (sentence makes no sense) our goal through this model? No. It’s not really working for us.

The difference comes when we get serious and start to change one habit or one behaviour, or implement one new skill. Learning the right skills in the right order is like lining up your dominoes in a domino competition. You only want to trigger the first one each time, don’t you? Once it has become a habit, it’s now like driving a car. It now doesn’t cause us any personal exertion.

It doesn’t tire us. We can just do it as a habit. At that point, we’ve learned a new habit. We’re now highly efficient after 30 days of applying that new skill or new knowledge. As it becomes habitual, we then settle into that.

It’s no longer stressful or energy zapping to apply it. We’re then ready to go to the next level. Of course, we can apply the next one. Focus on the next domino. What can we do then?

This is business planning. It’s no longer good enough to have a huge to-do list and just do that every now and then. That will get you some progress, but you’ve got to have a compelling vision of success; where you want to be in the future. You’ve got to recognise it’s going to take some time and effort, and some habitual changes to actually get there. So now you’re seeing a 90-day plan with some fundamental action points, implementation points, behaviour changes, knowledge and skills transfer and attainment for you. That is what will get you away from the cash flow cliff edge, and help you to master your business.

1. **Poor Cash Flow and Time Management Skills**

I’ve mentioned already that the cash flow cliff edge is something that we simply must migrate away from. We have to build up these cash buffers, and learn the financial skills and competencies that allow us to sustain that reality. It’s not good enough to have a purple patch and have a nice trading period, and never physically sustain that as a business model because it’ll end at some point.

We’ll end up as one of these tragic statistics because 92% of people do just that, and it doesn’t work. Why do so many people fail at these things? This particular chapter is really focusing on the 66% probability of failure rate, isn’t it? This is often due to poor financial management.

So the truth is there is no barrier to starting a business. Anyone can start a business. That is incredibly empowering, but of course it has its good and bad aspects.

The facts suggest that if a start-up business, or the owner, was forced to participate in some form of high-quality education and mentoring before they started their business, they would address the three common causes of failure, and reduce the business failure rate and increase the business survival rate.

The real truth is this – we don’t know what we don’t know. The more you can embrace that the more humbled and efficient you will become. We’re quite ignorant. We can often be arrogant. We can often think we know everything, and we’re often difficult to educate because we’re not really listening.

When we know what we don’t know, we have a much more humbling respect for the need to keep learning. There’s a fabulous quote from the late and great Zig Ziglar, one of my original earliest mentors. He says, “Money isn’t the most important thing in life, but it’s reasonably close to oxygen on the got-to-have-it scale.” In a well respected study U.S. psychologist Karen Rubenstein examined 20,000 people’s attitudes towards money in a nationwide poll, and found that 14% of people ranked money above all else.

When questioned about their life priorities including politics, sex, family, money, work and food, 62% ranked money in their top 3. For several comprehensive studies, Dr. Thomas Li-Ping Tang from Middle Tennessee State University, developed a money-ethics scale, which I will include in this book, because it’s used widely in the study of money attitudes today.

Grab a piece of paper and write the following statements on it.

How strongly do you feel about the following statements? We’re going to ask you to rate them in order of your strongest belief by putting number one next to your strongest belief, right through to your second strongest, third, fourth, down to sixth being your least strongest belief. There are six items there. Take a moment and rate your strongest belief to weakest, and put one through six on all of these.

1. Money is good. ⬜   
2. Money is evil. ⬜  
3. Money represents achievement. ⬜  
4. Money is a sign of respect. ⬜  
5. Budgeting is important. ⬜  
6. Money is power. ⬜

Depending upon how you rank on the above issues, you’ll be able to use that insight, that information, a little later in another exercise. Our self-belief system tends to work either for us or against us, sometimes much more than we even consciously know. So these belief systems will be important to reanalyse in a further, more advanced exercise a little later.

Here’s a great quote from Janet Parsons who is one of the authors and co-contributors to all of the content in the Best Practice Business School.

*“People don’t earn what they’re capable of earning. They earn what they have been programmed to believe they can earn.”* **- Janet Parsons**

This statement rings true when you have a whole bunch of customers you serve, who actually can’t afford to pay you what ideally you would like to earn (they either can’t afford or are not willing to). If you want to be more successful - where Janet’s quote rings so true - is if you want to have a higher earning, a higher profitability or a higher income, you have to ensure alignment through the quality of your products and services, and the target audience you’re taking and pitching them to. You must literally have people who are happy and willing to pay you exactly what you want to earn, and even thank you for the privilege of doing so.

**Exercise: My Beliefs About Money**

1. Our core beliefs were fully programmed by the age of seven. If we don’t get in and have a look at them and see what is and isn’t working for us, then it’s safe to say a seven-year old is actually running our books or our financial mindset. So exercise number one is to write down on a piece of paper what you were taught about money by your parents and other key people during your childhood. An example of this could be: “Money doesn’t grow on trees.” Take a moment now and write down everything that comes into your head in a simple 90-second brainstorm about what you were told as a child about money.
2. Do any of the beliefs you have assessed in the exercise above stand out as a money belief that does not actually serve you in your favour? For example, if one of your beliefs is “There is never enough money”, that’s exactly how reality might be. Unconsciously, you won’t allow yourself to have enough and you’ll struggle along to make ends meet.

So now looking at those statements above, just write down as part two at the bottom of page six, which of those beliefs really truthfully aren’t serving you well in your favour when it comes to managing your money?

1. Look over what you have done above, now it is time to assess; “What new beliefs would you like to hold about money instead of those that no longer serve you?” For example, instead of “money doesn’t grow on trees,” the new belief would be “there’s plenty of money available.” Take moment or two now to rewrite some new self-serving beliefs that, in fact, would work for you rather than some limiting beliefs that you may have picked up on before.

Write them as perfectly as you can, even if it’s not sitting perfectly for you yet. It probably won’t sit comfortably for you yet. You still must write them down as if it was very easy and very realistic. A wonderful thing will start to happen if you do that.

**THE TRUTH ABOUT MONEY**

Money was created as an exchange medium for the value of traded goods. It is just an expression of value. If you have a lot of money that means that you have created a lot of value for other people. Every day in your industry, you’re most likely creating a lot of value for somebody else in your life, or in an industry of some sort.

You deserve to be paid for the value you bring to the marketplace. We all know there are exceptions to this (e.g. drug funded, stolen money, crimes).

At this point, we’re talking about your belief system and the value you bring to the market place. The mistake we make is that we focus on what we don’t have and what we want that isn’t ours, or we can even get a bit jealous of other people having the stuff that we don’t have but want. In doing that we’re focusing subconsciously on what we **don’t** want, instead of understanding that we need to increase our value and trust our ability to do this.

You’ll be paid in direct proportion to the amount of value you bring to the market place. If you’re adding a lot of value and you’re not being paid for that, chances are that back in your exercise in the beliefs about money, there’s a fundamental flaw in your belief system. This is stopping you from being comfortable enough to ask for a genuinely reasonable rate of pay for the value that you bring.

**Exercise: Identifying 7 Triggers for Poor Cash Flow Cycles In My Business**

1. **I am spending more than I am billing** (no **live budget** in place)

What’s ironic is we like to tell ourselves we have a live budget in place, but very few people do. A live budget means you’re reviewing on a regular basis how much you spend compared to how much you anticipated you would spend. Then, review and adjust your budget accordingly, so that it’s accurate and you’re keeping a real account of your spending and how it’s going to affect whether or not you have any money left at the end of every day, week, month or year.

*So number one is yes or no? Do you have a live budget in place? If you don’t, think about what might happen and how things might be better for you if you did. What might be some of the examples of things that occur in your business or in your life that perhaps wouldn’t be as stressful if you did have a proper live budget?*

*Just take a moment or two, and write down, brainstorm for a couple of minutes all the things that could happen or could change for you for the better if you did, in fact, have a really accurate live budget in place.*

1. **Credit Terms 30, 60 or 90 days with suppliers – that don’t FIT with my running costs.**

So I might have to pay everything out much earlier than the money I’m owed comes in. So there’s a misalignment between the way I invoice and collect my money and the way I’m forced or expected to pay money out to others. So we must get some alignment there between our receivable money and our payable money.

*So therefore, you’re now somebody’s banking over draft system. You’re not getting paid. So you’re loaning people money on time and credit. That’s not good for your cash flow or for your business. So other situations where you’re being very honest, very loyal and ethical and paying people on time, and yet, at the same time you’re not getting paid on time. It’s a situation where you don’t have true synchronisation and alignment between your income and your outgoings.*

*Perhaps you need to change your trading terms. Take a moment or two, 60 to 90 seconds and write own all your ideas on how specifically your credit terms and your payment behaviour for incoming and outgoing income is really working for you or against you. Try to identify the specifics.*

1. **Inefficient Stock Management** – excess or obsolete stock or ineffective systems for stock control.

Think about this even in your household. Whenever we buy more of one thing than we actually need at that time, we can justify through the cost-ratio that we’re saving time or saving money, but the truth is we’re not actually saving money if we spend money on something we don’t need. We’re spending more money that we should’ve spent. A great example happens in a manufacturing business where they decide that instead of making 500 units for $7 each, they’ll make 1500 units for $4 each.

Suddenly, 1,000 extra units for $3 less sounds like a $3,000 savings, doesn’t it? Instead, they spend substantially more money than they could’ve made on the job as profit. So the job profit goes out the window. The 500 units get sold, and they’re left with 1,000 extra units at a cheaper price. They have no customer to buy that product.

That causes enormous misunderstandings. They say to themselves, “Wow, we’ve got all this wonderful inventory to sell now,” but the truth is they’ve got no cash flow because they spent all of their future profit they could’ve earned on the 500 units and reinvested it and spent a lot more money. So let’s just do that calculation – 500 units at $7, or 1,500 units at $4.

So 500 times $7 is $3,500. 1,500 times $4 is $6,000. Now let’s assume for a minute that there might’ve only been a 30% or even a 40% profit in the job. If that’s the case, what was the 40%? So we could’ve had a $1,400 profit in the job.

Instead, we told ourselves we should spend more money and save $3 per unit times 1,000 is $3,000, but in truth, what have we done? Instead of making $1,400, we’ve actually spent another $2,500 more than we should’ve made. So instead of making $1,400, we’ve spent an extra $2,500 if we take that off. So this highlights that spending $6,000 to save $3,000 when in fact we’ve missed out on a $1,400 profit, we’ve actually spent $6,000 and we have no profit. We’ve actually made a loss. This kind of thinking is called cost accounting where you count the cost per item and you worry about how high that cost might be.

That cost is irrelevant. The profit per job is the only measure; how much cash net income you have got per exercise, per job.

*Are there any excess or obsolete stock or ineffective systems for stock control or inventory control in your business right now? Are you buying too many items that you don’t need? Are you buying excess tools? For example, if you’re a builder, you might be buying a whole bunch of new tools and equipment every time you need them once.*

*You shell out hundreds of dollars, when you could’ve had the tool for $15 or $20 for the day that you actually needed it, and then on-charge that to the client. Which of those could be you? If you’re running a café or a restaurant, you might be ordering in big batches every now and then of a huge amount of stock. Sitting on that particular product, and it’s loaded up in the back of your storage facility in the restaurant or café. Really, it’s taking a long time to get paid for all that extra produce that’s sitting there in raw materials. There are some examples you could consider.*

*Take some time and write down all of the different ways you may be running an ineffective stock management mindset or a lack of a system.*

1. **Excessive Debt, Causing Late or Non Payments**

When we’ve got a huge amount of debt, it’s like a noose around our neck. If we’re always worried about the money we’ve got to pay out in different directions, then we’re always robbing Peter to pay Paul. I tend to call these things a “legacy debt.” For example, when you first start a business, you can often spend the first three to six months not being too concerned (naively) about the taxation you may have to pay that you’re currently accumulating as a liability.

You get to the end of your first quarter or the first year of trading, depending upon how you’re structured, and you suddenly have a huge tax bill. Now that might cause you an enormous amount of pain. In many cases, this is why 52.5% of all small businesses go broke in their first three years from starting out. They don’t know what they don’t know about falling off the cash flow cliff edge even just when it comes to the tax office liabilities. Now, we get to the end of that year.

Let’s assume that we’ve learned how to pay - we begged, borrowed, stole, or we made some money. We paid our tax bill. If we didn’t, we have a tax liability. Now in Australia, the Tax Office will often allow you to enter into a payment plan to pay back that taxation bill over a period of time. Now, you’ve got what we talked about in item four in this example, which is excessive debt. The liability’s ongoing.

What then happens with that ongoing liability is that it becomes much more expensive to run your business now because you’ve got legacy debts to pay each month, as well as the ongoing running costs of the business. It’s much more difficult to actually make money each month until you’ve paid off those debts.

*Think about whether or not you’ve got any liabilities, any legacy debt that’s costing you time and money and causing you to make extra payments that puts pressure on your cash flow every month. Take a moment, and write down every single monthly payment that’s recurring in your life that you have to keep paying. You may not even know that they’re actually recurring. Don’t forget about school fees or the council rates.*

*They only come up periodically, and yet they’re guaranteed, and therefore they affect your entire year’s cash flow. It’s not just your business, is it? It’s also those personal ones as well. So what excessive debt have you got any tax liability from last year, or a payment plan, or a start-up loan from starting a business, a family loan that you’re paying back in cash? What are those things that keep you stressed out and possibly also cause you to have late or non-payments?*

*Take a moment to write those down.*

1. **No Cash Flow Management Process**

This point is the reason we get into trouble in the first place. How do we end up with legacy debt? How do we end up with liabilities? It’s because we don’t understand whether we’re making or losing money, whilst we’re accumulating a tax liability.

So we can be taking money out of our system/business. We can be drawing income, which isn’t actually a fixed wage, just cash when we need it. When it’s cash when we need it instead of a fixed wage, we’re not managing our cash flow. Instead, we’re unaware of the liability that’s accumulating - such as a loan. The accountants will call that a “company loan” or a “Div 7-A”. You then have to pay a loan back over a number of years because you’ve taken your money out without paying tax. Or because you’ve taken out so much that you now can’t afford to pay the lump tax bill that’s associated as a calculation of the amount of drawings that you’ve taken out.

So these all come down to no cash flow management process, and also not paying yourself a wage. So it’s really dangerous to not set yourself a wage bill and actually be a taxpayer. You really must resign to this reality, so that you know exactly what your responsibilities and liabilities are, and you pay them periodically ongoing, rather than having them blow out and be a huge liability at the end, which can send you over the edge.

*The cold hard facts are that very few people in their household, personal life, professional life or in their business life actually have a proper cash flow management system because that’s not an accounting system or a bookkeeping system. Accounting is accounting, and bookkeeping is bookkeeping. Very few people have a cash flow management system. Of course, growth is vanity, profit is sanity, but cash is king.*

*So the cash flow is really the one that we’ve actually got to master. So take a moment and ask yourself whether or not you have a cash flow management process or system in place. How detailed is it? Could it be improved in your favour?*

1. **I Don’t Have a Business Plan**

When we don’t have a business plan, we’re not really clear whether or not we’ve got a bona fide strategy in writing. We can have a great idea. We can feel good about it, but the business plan is actually how we stay on track. We’d look down through our business plan.

We determine what we’re actually going to do, and then we stick to that and we keep referring to it. If we’re going to make a change, we make a change in our business plan. More rigor and more discipline is created in this case, rather than flying off in another direction and making a sudden change. With no cash flow management and no business plan, you can be fairly directionless. When you first start a business, you don’t care so much.

You’re pretty inspired and motivated to go and do great things. Over time inspiration and motivation aren’t enough because, as Zig Ziglar said, “money is right up there with oxygen.” You’ve got to be successful.

*Do you have a current live business plan that’s tracking and challenging you to think about every 90 days, and where you really want to be sitting, on the road towards achieving your vision? Do you have a vision of the future and do you have the 90-day plan showing you the specific actions you need to take seriously along the way? Let’s take two minutes now, and write down how much of a business plan you really have in place or how you would benefit if you could upgrade that business plan?*

1. **Disorderly Spending – including extravagant personal living and lifestyle choices**

Surprisingly, disorderly spending is fairly high up there on a list of business failure issues because if we got used to a particular lifestyle before cash flow got difficult or we entered a cash flow challenging period of time, we may still continue to spend in a disorderly way.

Without disciplines to reel that in, you can actually have extravagant personal living or personal lifestyle choices that you really can’t afford. So being aware of those is incredibly important, isn’t it? Now there’s a reason why these things occur. So I’m going to teach you a little bit now about volatility, which we’ll expand on right throughout.

*Take a look at your lifestyle, the way you spend money, and the spontaneity of it. Whilst we don’t want to kill the fun and the excitement of life, we do want to understand or, certainly for your own case, your own self-analysis of how spontaneous your spending really is. Take a moment and think about all those things you do or don’t do that perhaps can contribute to excessive or spontaneous spending. For example, if you don’t have a budget, then you’re more likely to spend what you want, when you want. Then you’ll suffer the consequences of having no money left before the next pay cheque and this occurs more often because there’s no budget in place.*

**TURNOVER AS A MEASURE OF SUCCESS**

It’s easy to grow your revenue. It’s also easy to consider your turnover as a measure of success. This is actually not only pointless. It’s incredibly dangerous.

Failing to constantly track and measure your additional fluctuating expenses while ignorantly taking pride in your turnover as a primary measure of your success is guaranteed to hurt you at some point. It may possibly even be fatal and kill your business if you go on that way without address the issue. What you really need to focus on is the net income, which is what’s left. So you’re subtracting all your costs that are fixed and your fluctuating expenses from your gross income, and your net income is what’s left over. What we really want to achieve is an evolution of success over time. So if this is your break-even figure, over time your break-even amount is probably going to increase because you’ll ideally increase your business.

Some of your expenses are likely to grow, as are your overheads. What’s our real goal here? We’re really trying to achieve more income than expenses. This gap between the two, we want to see it get wider and wider, because that’s how much money is left in your pocket before tax, which is your net pre-tax income.

The more income with less expenses, the more net income you’re actually going to generate. So the primary measure of success is that progressive net income.

**FINANCIAL MURPHYS**

The next chapter is still on page 12, and that is “Financial Murphys.” Murphy’s Law states that “anything that can go wrong, will go wrong sooner or later.” That’s also relevant when it comes to money. Financial Murphys are unexpected or unpredictable financial events that are basically out of control. We can’t necessarily control these events, but we can plan for them.

The goal is to create effective shock absorbers to handle these Financial Murphys. Just like bumps in the road, this is your financial backup plan or your cash buffer. Right from the start, we spoke about an objective of one day arriving at the 13-week cash buffer. This buffer is always going to be there for disaster recovery capability in the event of a Financial Murphy. What’s really interesting about Financial Murphys is the more responsibility we take for our cash flow and what goes wrong financially, the more we start to discover that the majority of Financial Murphys are in fact predictable.

Let me give you an example. If you drive an old car that requires some regular servicing and occasional maintenance and repairs. You may find out that, on average around $2,000, $4,000 or $5,000 per year is a fairly predictable Financial Murphy. So even though you don’t know exactly when that car is going to need the servicing or extra parts or a big spend, it’s an old car with an average of $3,000 or $4,000 a year in extra servicing and repairs. There’s a great example of a Financial Murphy that you could actually take responsibility of predicting, and building it into your budget. Another way to deal with that would be to lease an inexpensive new car with a very good service plan, including all parts and labour.

You may have a fixed cost every month with no nasty surprises. If you’ve actually looked at the total cost of doing that per month, it may not necessarily be more than if you were running an old car with lots of expenses. It really depends on your circumstances and situation. Things like school fees, for example, if you suddenly have to change schools. That’s a Financial Murphy. It’s unexpected.

If we were thinking about preparing for the possibility of private schools, we may actually have a savings plan uniquely for our child’s option to go off into a private school. These are ways that we can think about that predictability or unpredictability in advance. Those things that we think about are less likely to hurt us, if we plan for them ahead of time. The buffer is all about disaster recovery.

We want you to think about one example of a Financial Murphy that you’ve had to suddenly deal with, either in your business life or in your personal life. Write down on a piece of paper the steps you could have taken now (with the benefit of hindsight) to minimise the financial effects of this issue before it occurred. It’s a great way to understand and start to alter your future for better results because Financial Murphys most of the time are much more predictable than we would like to think when we’re stuck in victim mode and hurting through the awareness and the realisation of something that has just occurred. Take two minutes, and write down one of those examples. See how far you get in terms of the benefit of hindsight. How you could do it differently by coming up with a different strategy? Write down your example a piece of paper now.

**THE TRADITIONAL ACCOUNTING SYSTEM IS FLAWED**

So now we’re going to look at why the traditional accounting system is actually flawed, fairly controversial stuff. On page 14 of your workbook or on the screen, what you can see is that, with the traditional accounting system, we can’t easily see which cash is already committed to upcoming bills needed as a buffer for unexpected threats or opportunities, or is free to invest in growth or to draw upon as income. We call this “spaghetti”. It’s like “spaghetti” intertwined. It’s a mess.

This means you, the business owner sees the money in one account and goes on a spending spree, unaware that the money is required for upcoming bills. So how much is pre-committed to those upcoming bills? How much is needed for daily and weekly current running costs? How much is needed for the tax office? How much is actually there for you that is left over? This type of spending pattern actually creates more “spaghetti”. So when we don’t know how much of that is pre-committed, and how much we need, and how much we can spend, the constant dynamic that we keep exercising, in fact, keeps us in that very “spaghetti”-based dynamic.

**THE REALITY OF CASH FLOW VOLATILITY**

We’re going to introduce the reality of cash flow volatility. Volatility isn’t well understood. It’s what we like to call the “noise” in your business or in your life. Volatility or noise can actually be in anything, but today we’re talking about money or cash flow.

When it comes to cash flow, volatility (along with “spaghetti”) is one of the most destructive realities that we must get rid of cash flow volatility. It’s like the noise in our lives. They’ll know what space when we’re too busy with information in our heads. Volatility serves no purpose. It just creates stress.

Some factors are beyond our control. However we can focus on the controllable factors and start to reduce volatility. I’m going to draw a diagram on the white board for you, so you can better understand volatility. As before, we’ve got a break-even line. What does it cost to live, run our business, earn a living and pay our taxes?

There’s time, turn over, expenses. The higher our turn over, assuming we don’t increase our expenses, we would actually increase our profit. So over time, what’s volatility? Money comes in, but we have lots of bills.

So we pay the bills, and now we’re under stress. So we work hard to get some more money in. Pay some bills. Get a big job done. Pay some bills. Get some money in, not enough. Get some more money in. Pay some bills. More money in. Pay some bills. Pay the tax office.

When we look at that model, over time it’s really difficult to tell whether we’re actually making any money. Yet, the tax office wants its pound of flesh, not only GST, if we actually report a profit at the end of the year. At the end of the year on June 30, or even the end of the quarter with the BAS we have running costs and accumulative costs that are coming along. We finally get to this point, and we have a tax bill.

We’re not happy, but we may not actually have any money quarantined to pay the tax bill because we didn’t even think we were making money. We couldn’t tell. When the money was at its peak, we felt good, but it never lasted. Because this is the “spaghetti” we were talking about. Of course, we got out of it only to get back into it. This volatility means too much time is passing based upon how we measure the money we’re making or losing, coming in or going out, spending or saving.

There’s way too much time between measurements. You need to take more measurements in less time, and then it starts to actually reduce the volatility, but there are other things you can do as well. So what we’ve really got to do is have a goal, or an objective, of reducing volatility. If we make payments on occasion, then we’re holding money that’s not ours. Suddenly we have no money.

If we make payments regularly, what happens is that we smooth out the volatility. Even though it makes us feel like we have a lot less money, that’s because we have a lot less money. We always never had that money. We were always in that situation. We just didn’t know how good or bad it was.

For 92% of small businesses, why they fall off the cash flow cliff edge is that this volatility one day just swings way too far in one direction and they’re gone. If we can take the volatility out, it’s so obvious to us if we don’t have any money, because on a daily basis we can see that there’s not enough of a gap between our income and expenses. As a result, we need to make change. We need to increase our sales or our income, or reduce our cost or our expenses, or possibly even both. This is the great volatility conundrum for every small business in the world. Until now, nobody’s been teaching us how to get serious about making it better.

We really need to get out of our victim mentality where we just turn up every day, just do it the same way, and we don’t make change. We’re hoping or expecting a different result, but we’re not changing anything. We’re just running the same cash flow cycle, the same volatility cycle. It’s a bit like the definition of insanity, isn’t it?

Insanity is waking up every day hoping for a different result, but not doing anything differently. We have to get out of victim mentality. We actually have to start making changes to improve our financial situation. Behavioural belief changes are definitely the keys to better cash flow.

We want to help you to help yourself to put out the flames in your own business or household’s cash flow volatility. So step one is to write down what steps you can take to reduce that noise or reduce that cash flow volatility. For example, if you invoice more frequently in your business, you may find that you’re sending more timely notices to your customers to pay you on time. Most of the reasons why people have got outstanding money owing to them is that they don’t invoice on the same day they finish the job. You should never hand over the job, hand over the keys, finish the job, and walk away without handing over an invoice and asking for payment.

That would be a wonderful example, wouldn’t it? Often what we see, particularly in trades, building-related industries, industries where you can invoice and walk away, or you can walk away and invoice later is just that. Most cafes or restaurants would never say, “Don’t pay tonight,” would they? “Don’t worry about the bill,” of course not. They would think this was insane.

So why is it that a builder, a carpenter, an electrician or a plumber walks off the job, says, “Yep, we’re done? I’ll send you an invoice.” The second you do that, you start indicating to that other party consciously that you don’t need the money right now. They start getting that signal loud and clear. What you then do, if you don’t invoice on the spot, because it takes you an extra five to 10 minutes, you race out the door.

You jump in the car or the truck, and you go off to the next job or the next quote, and you keep working on the next task without really finishing the last one. Before you know it, a few days have gone by and you have an invoice that climbed from Monday earlier in the week. The next thing you know, you need to invoice everybody because you haven’t done any invoicing for four or five days and there’s no money in your account. What happened? We’ve created our own cycle of volatility.

It’s exactly the same in a café or a restaurant where we actually save up all the cash and don’t pay any bills, don’t pay the rent and don’t reorder stock. Suddenly, we have to spend all the money. This is the same reality in a different way. So what are the steps you could take to get the volatility out of your cash flow and out of your payment cycles as well? One great example that we recommend is to physically block out some diary time every week.

If you could sit down for two hours every week to sit down and look at the way you run your business, and study things like your cash flow volatility, your invoicing patterns, the way you manage money, the way you plan your business. For some of you, the first thing you would do when you block out your diary for two hours a week and sit down is actually discover that it’s the first time you blocked out your diary properly. So what we talk about is a philosophy of planning to plan. Take the time to block out all your planning time so that you’re planning to plan. It’s locked in.

You can pick a particular day of the week where it’s your favourite day to sit still, get calm or get some quiet time. This could be a Friday morning, a Monday morning or a Wednesday afternoon. Give yourself an opportunity to plan and work on your business or on your personal life, whatever it is, but also look at your cash flow volatility because there’s always more that you can do.

Take two minutes, and write down some ideas around exercise number one.

**Exercise: Understanding Cash Flow Volatility**

1. **Cash Flow volatility is NOISE = No White Space**

How you can help put out the flames of Cash Flow Volatility in your business?Write down what steps you can take to create less NOISE in your Cash Flow Volatility? *E.g. Block out diary time when you can concentrate on looking for opportunities in your business to invoice and get paid more frequently*

1. **Volatility serves no purpose, just creates HUGE stress**

Volatility serves no purpose; it just creates huge stress. So think of one thing that, if you acted upon it immediately, would actually reduce the stress for you. For example, are you quoting to match the value that you bring to the marketplace, or are you under quoting to win the job? Are you pricing your food or your coffee in your restaurant to match somebody across the street or you’re pricing to actually provide a quality experience for your customer?

Write down ONE thing that if you act on immediately will reduce this stress. *E.g. Are you quoting to match the VALUE**you bring to the marketplace?*

1. **Some factors are beyond our control – FOCUS on what is controllable.**

The next activity is number three on page 16 of your workbook or on the screen. Some factors are literally beyond our control. I want you to choose one aspect of your cash flow to focus on that is actually controllable. For example, make it your mission to sell off excess materials or stock. Order less materials, use them up, or make sure you actually sell them off into a job where you can recover the money.

Order less in the future, so you don’t carry this huge amount of stock that’s costing you profit per day, per week.

Choose one aspect of your cash flow to focus on that is controllable, write it down. E*.g. Make it your mission to sell off excess materials or stock*

1. **Get out of “victim mentality” and take control**

Is there something else you can think about in your own mindset, your own victim mentality where maybe your patterns, behaviours and systems aren’t really working for you and it’s time to be more honest and transparent with yourself?

Take two minutes now, and brainstorm all the things that really deep down and quite honestly could be done different and more effectively for yourself when it comes to maybe even unconsciously being a victim and not taking action to make it better.

Write down ONE step you can take to get out of “victim mentality” and take control. *Eg. Is there a trusted friend or advisor you can go and grab a coffee with and get some clarity & support around a Cash Flow issue?*

1. **Behaviour and Belief change are the keys to better Cash Flow**

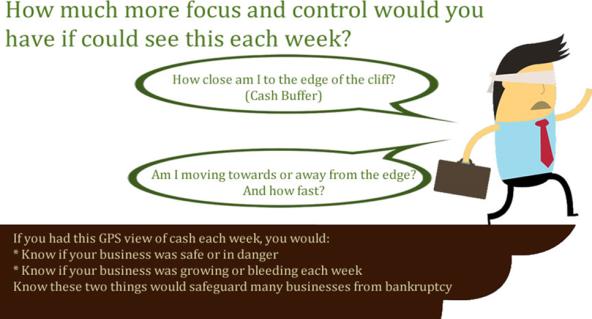
We’re on page 17 at the top with number five. Behaviour and belief change are the keys to better cash flow. So look back on your money beliefs now right back on page six and seven in the workbook and the notes you took down. Start asking yourself, “Which new belief do you now need to bring into life with these amazing insights that you’re starting to create about the need for some behaviour change to achieve better cash flow?”

Behaviour and Belief change are the keys to better Cash Flow*. E.g. Look back at your money beliefs in previous chapters. Which new belief do you need to bring to life now?*

**CASH FLOW CLIFF EDGE**

Every Business Owner starts out on the cash flow cliff edge. No one intends to stay there. Yet most businesses spend their entire lives on the cash flow cliff edge, and never migrate away from it to safety.

The real issue is when we’re not understanding where we sit on a daily basis. If we can get the volatility out of our business, then we can understand precisely where we are. With this volatility, we’re distracted by time. So time helps us to forget the truth.

Time. Oh no, now we’ve got to think. Now we don’t have to think. Now we’ve got to worry. Now we don’t have to worry. This time is passing, isn’t it? It’s a big distraction.

If we get the volatility out, we know the truth. The truth reminds us and gives us a jolt, a real shock about where we actually see it on the cash flow cliff edge. We can start to make change because we need to, and we can see it. We’re always there. We’re always treading on the cash flow cliff edge.

We’ve just never done anything about it, and we’ve never maintained a heightened state of consciousness that would compel us to do things differently. This is because time and volatility have led to a total distraction for us like a merry-go-round that’s going nowhere, but we’re growing older. We’re still not alleviating the risk of going broke. So the following exercise is to look back on your beliefs.

**Exercise: Actions & Steps you can implement using these Ways to Reduce Cash Flow Volatility & Improve Cash Flow**

1. **What actions can you take to ensure you send statements and chase debtors more regularly (i.e. weekly)**

Personally, I recommend every day to generate the invoices as you complete them. Take a moment and write down what you could do there. Take a couple of minutes to write down everything that pops into your head, the actions that you could take.

1. **What step can you take to ensure you track ALL income/expenses?**

Could you move to cloud accounting software? Could you move to a daily review - a few minutes at night, at lunchtime or early in the morning, to really understand how things are going with your income and expenses? Could you move to a live system that actually delivers that knowledge to you, that insight in the cloud? What steps could you take? Brainstorm on a piece of paper.

1. **Where in your business can you look for opportunities to pay smaller amounts, more often (i.e. weekly wages and supplier payments)**

Where in your business can you look for opportunities, to pay smaller amounts more regularly and more often? For example, if you pay a monthly wage bill you have to work up to that, and then the money is gone, and it’s a big expense. That’s exactly the same as volatility.

Another example is if you have a mortgage. Your mortgage might be a huge amount of money every month unless you paid it weekly. Same rules apply.

What opportunities have you got to pay suppliers and commitments more regularly, in much smaller amounts? For example again, we pay the tax office every single day. We don’t always pay them exactly what the total daily amount would be, because we may not always have the money there - but we do pay the tax office every single day.

That way there’s no big nasty surprise or nasty lump of cost at the end of a quarter or tax year. So what are all the things you could do? Take two minutes, now and write them down.

1. **Do you need to Renegotiate monthly payments to dates where your cash flow is strongest**

Okay. Number four, do you need to think about renegotiating your monthly payments to date when your cash flow is strongest? In some industries, expecting your customer to pay you exactly on the date that you want them to pay you isn’t always necessarily achievable. We need to be realistic about that and control the controllables, rather than be frustrated by the uncontrollables. So what else could you consider? For example, you may look at your income through the bank statements and find that there are, for whatever reason, set days of the month where you typically get more money in than others.

It might be for example that you have one contract with one large client, and they just pay you on the 15th of the month or seven days after the end of the month from the previous month, five weeks late from when you actually invoice. So working out your timelines of when you get the most amount of money, could you renegotiate your more expensive and significant supplier payments to be made a few days after you know that money is typically coming into you? By changing your dates around, you may in fact reduce the stress on you at the quiet monthly times in your cash flow.

1. **Create a budget and stick to it – Do you have a Budget?** **If so, are you STICKING to it?**

You can set up a budget here:

<https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/budget-planner> you can do this now - it takes about 20 minutes

If you don’t already have a budget, how could that have led to some of the frustrations and stresses (and even potentially arguments, emotional disappointment, despair and depression) from time to time?

How could a budget have dealt with those and made your life a little easier?

1. **Your business will require a back up fund (cash buffer).**

It is not a matter of “if.” It is a matter of “when.” It’s going to happen at some point. So what are the actions you could take to think about creating your cash buffer, and moving slowly but surely away from the cash flow cliff edge?

An example could be that you set up a separate bank account, and you made a very, very nominal daily transfer. It could be as little as $1 a day to get started - so you won’t worry about failing to make that payment. At least if you did that, you would be starting a discipline. Now if you’re not conscious of it, you may soon forget about it, and you may never increase the amount.

Over time, we can get the volatility out of the business cash flow, and start to increase the amount we could put aside over time. This would be a result of managing our costs, and improving our sales or our turnover. As our profit grows, we could slowly increase the amount per day. So, therefore, initially, it might seem like we’re moving very, very slowly in our migration away. Every step is a step worth taking. The slightest step in a positive direction away from the cash flow cliff edge is incredibly powerful in reducing your risk of failure.

Pretend for a moment that the cash flow cliff edge is an actual cliff instead of the *cash flow* cliff edge. If I’m intoxicated and full of alcohol, I really can’t control my physical actions. So I could easily fall backwards over the cliff edge, or take one step forward to slightly more safety. When I’m only one step from going right over and falling, my probability of failure is 50%.

If I can somehow manage to take one step in the right direction, then I’m now two steps away from the cash flow cliff edge. Now what’s my probability of failure? It’s actually down to 33%.

If I can take one more step away from the cash flow cliff edge, now what’s my probability of failure? It’s now 25% - four steps. So these things are really important to understand.

If you’re only a few steps away and you’re still running your business through a volatile “spaghetti” based cash flow, then you’re still fairly at risk. If you start to implement these things and get the volatility out of your cash flow, or if you implement a real cash flow management system, you can actually start to significantly reduce the probability of failure. This is because you’re governing your business in a better way.

Business governance is about doing all the things you should do, rather than doing some of the things you should do because you don’t mind doing them. Not doing lots of things you should do because you really can’t be bothered or you don’t like doing those. Less than 1% of small businesses worldwide turning over less than $20,000,000 have any decent corporate governance. Corporate governance is running your business completely like a business, not breaking any of the rules, and always making decisions on sound commercial principles.

Think about how you could you do that? What could you implement now to at least be an organisation that’s actually moving in the right direction?

1. **Bringing a proven Cash Flow Tool into your Business will give you Cash Flow confidence**

**Recommended by us:** [**www.cashflowmomentum.com.au**](http://www.cashflowmomentum.com.au)

Cashflowmomentum.com.au is a product that we highly recommend. We’ve put it through rigorous testing with over 100 accountants and small business owners. Those who actually use the system and worked it properly and followed all of the actions in the system ended up raving about the benefits of which we’ve put four of them down for you.

Cashflow Momentum offers 4 Steps to Success

1. Reduces Volatility
2. You know your position on the Cash Flow Cliff Edge
3. Improve your Performance
4. Start your Migration to Safety

They’re the really obvious ones. The logical ones are obviously reducing volatility, knowing your position on the cash flow cliff edge, improving your performance, and starting your migration to safety. Albeit, sometimes slowly but surely, depending upon your volatility and the journey to iron that out

**OR**

**Another option (untested by us) -** [**www.cashflow-manager.com.au**](http://www.cashflow-manager.com.au)

This isn’t one I have personally tested nor have my team, but I do know it’s recommended by some accountants.

**REFLECTION**

Welcome back. Now it’s time to reflect on the insights and the key learnings that may be applicable to you from the contents of this workshop. What processes in your cash flow have you identified as important to act on immediately? What things do you now know you should be doing something about, that you’re willing to commit to? Take some time to write down some notes.

I hope you’ve enjoyed and gained some benefit and some valuable intel and understanding on how you can reduce volatility, and improve on your work-life balance and your financial situation. You do this by gaining control of your cash flow conundrums, and slowly but surely working on a plan to get you away from the cash flow cliff edge towards a positive cash buffer.

Thank you for spending the time and investing in yourself because if we want to have more than we’ve got, we have to be willing to become more than we are. I congratulate you for doing just that. Investing in your own learning, in your own development, because these tools are really what it’s about. Life-long learning will lead to better results for ourselves and our happiness and our life. Nothing else will really ever compete with life-long learning. So, well done. I look forward to seeing you again somewhere, either in a workshop or live, at some point again soon. Bye for now.