VINYL APPS

By Dale Salamacha

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Mind Your Money

You won't grow if you don't understand your finances.

This month's column is going to be a little different; it won't feature a wrap or sign project. We're going to address something many sign-company owners rarely talk about, or don't want to talk about: financial management.

Although often neglected, it's vital to a successful business. It could be THE most important factor for a business owner. Why? Because making money is why we're in business. If we didn't need money, most of us wouldn't work. We'd be at the beach, fishing or doing whatever we call fun. We work to provide for ourselves and our families.

Even if you truly love your work, if it's not profitable, why do it? If you don't make money, your business will eventually fail, period. Without cashflow, we can't pay for materials, our employees' wages, rent or electricity. It sounds so simple, right? Then, why do so many business owners shy away from the financial aspects of running a company?

Chances are, they're not familiar with how to interpret financial details. This includes being able to read (and understand) a profit-and-loss (P&L) statement, and determining the effect your fixed costs have on your bottom line. Managing the intricacies of employee payroll makes most of us shudder in apprehension!

My experience

When I started my company at 16 years old, I thought I only had to be good at painting signs, and the money would come. Sure it came, but then it went, and it always went out faster than it came! I had no idea that financial aspects dictated my future success. Even during the following years, I thought that selling and production were the only management components I had to master. So I only perfected those two facets. In doing so, I left a huge gap in my company's functionality.

Remember, size is irrelevant. Whether it's a mom-and-pop shop making signs in a garage on weekends, or a multimillion-dollar enterprise that produces signs worldwide, the financial consequences are the same. Not similar, the same. If there's no profit at the end of the month or year, eventually, there will be no business. I'm sure you've seen a small signshop down the street closed for good, or a huge national sign company shutting its doors and leaving hundreds of people out of work. Being profitable is the only thing that keeps the doors open.

For years, I said, "I'm shooting for revenue of $10 million a year!" I thought reaching that figure would make all the difference, and had no doubt that much money would make me profitable. My bubble burst when a friend told me: "It doesn't matter that you made $10 million this year, how much was your net profit? How much is in your pocket?" He was right about what really matters!

Obviously, a huge company has the potential for a larger net profit, in terms of simple dollars, than a one-man shop. However, you don't have to have a huge shop to run a highly profitable operation. Your net profit is calculated as a percentage of total revenue. You shouldn't be concerned with sales of $10,000 that month; you should strive to take home 25% (or so) of what you did bring in that month. It gets tricky when you start considering your obligations and bills to pay, because you're always plugging away, not only to maintain, but to grow.

Once you understand your financials, you can focus on the only

Dale Salamacha founded his sign business at age 16. Since then, he's learned a great deal about effectively managing his money – and that profit margin, not revenue, is the key to success. For this type of job, Wrap This! enveloped a Ferrari Four, a hatchback with four-wheel drive that seats four, with 3M matte-black film, and complementary red, plotter-cut graphics. To thrive and enjoy the opportunity to complete such wrap jobs, it's important to get the best deal possible on such services as insurance (particularly important when wrapping exotic cars), accounting, office supplies and any number of factors that impact a shop's profitability.

thing that really matters – the percentage of money you're putting in your pocket. How do you progress from worrying about paying bills to having funds to run your business as you'd like?

First, set realistic revenue and profit goals. Make it enough to keep you motivated to work hard. Make it more than you made last year, and write it down. Divide that number by 12 months, and use it to compare against your P&L statements every month, maybe even weekly.

For argument's sake, let's say you want $100,000 in annual net profit. That's $8,333.00 a month, or $1,923.00 a week, that you want to clear. How does paying attention to your P&L make that happen? First, decide what profit margin you require to make the $100,000. We typically strive for 26-30% net profit in our business model, but never less than 25%.

Using 25% as a model, you'd have to sell $400,000 to take home $100,000. Obviously, this won't all go into your pocket. You'll need a good accountant to navigate the tax implications. A number of variables can change your weekly net profit. Strive for your target, but some months may bring only 20% profit (or less). Look at the P&Ls every month, and make adjustments weekly, quarterly and yearly to reach your goals.

How to grow

If you're not watching your P&Ls, you'll never know that valuable information. Then, December will arrive, and you'll wonder what happened to your money. You may think business sucks, or the economy is bad, but things went south because you weren't paying attention to your numbers. As a business owner, you have to have the ability (and responsibility) to make financial adjustments to ensure your profitability!

How do you make those adjustments? There are only three ways:

- Sell more product
- Increase your prices
- Decrease your expenses

Let's look at these three items individually:

1. Sell more product. Easier said than done, I know. But, as long as you're providing a profitable product or service, more sales mean more profit. That's easy to understand, but how do you get

there? Are you going to devote more time to cold calls, pounding the pavement or other selling or promotional tactics? How will you manage this while maintaining attention to production? Or, will you hire more sales or production staff to facilitate moving more product? Of course, this would require more payroll. Growing your business requires a balancing act; choose wisely.

2. What about increasing your prices? Again, it's easier to say than to accomplish. You don't want to price yourself out of the market, and you don't want your customers to think you're gouging them. You have to walk a fine line, but keep in mind, if you're selling your product too cheaply, you're doing no one a favor – especially yourself.

I'm willing to bet your best customers will understand the need to gradually raise prices to ensure you'll be there for them next year. Approach price increases cautiously, but remember, you work to make money.

3. Now, the most critical item: decreasing expenses. On your P&L statement, one line covers money coming into your business: income. Conversely, all other P&L entries report money going out of your business. It all boils down to income - expenses = profit. Expenses take many different forms: cost of goods (materials), payroll, insurance, rent or mortgage, travel, taxes, vehicle maintenance and many more factors.

To decrease costs that impact your bottom line, you have to be diligent. Research your phone bill, negotiate lower prices with vendors, and shop professional services such as accountants, insurance companies and banks. Don't be embarrassed to do this. This is your money; make sure you're getting the best deal possible. Focus on this regularly – don't assume discounts are permanent, and consistently review prices.

No one said owning your own business would be easy. But, we chose to own businesses, and we business owners adapt and overcome obstacles to improve and grow. We also heed the direction of P&L statements. They're the key to future success!

In the September column, we'll dissect a sample P&L and create proper percentages for payroll, cost of goods and other line items. ■