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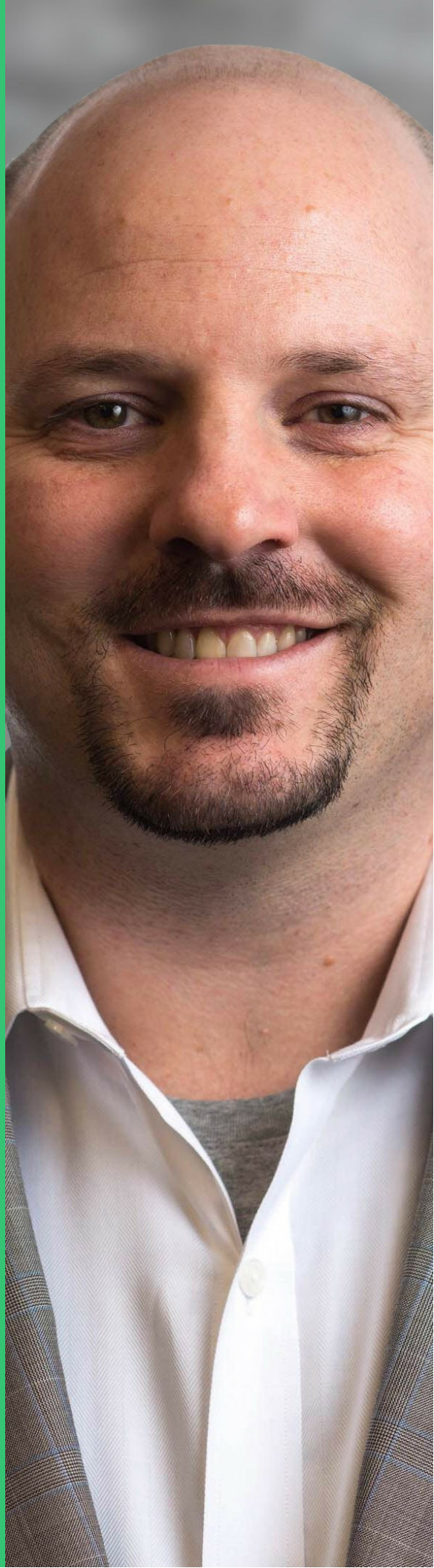
Numbers And Systems You Need To Grow Your Business

A successful business owner knows their numbers.



Numbers And Systems You Need To Grow Your Business

by SuperFastBusiness

Scott Orn

James: James Schramko here, welcome back to SuperFastBusiness.com.

Today, I have a special guest, we're talking about business-y stuff. Welcome Scott Orn.

Scott: Thank you James, great to be on the podcast.

James: You're a listener of the podcast, and you've reached out and said you'd love to share some ideas around systems and financial processes, and after my eyes glazed over, I said, "Yeah, sure, that sounds fantastic."

Scott: [Laughs] Well, what we're trying to do here is, you know, at Kruze Consulting we work with about 140 startups, and we have learned all the best processes, best softwares for new businesses to establish themselves on, and so I was hoping just to give your audience some tips, and get them going in the right direction with the best processes and best software services, and save them a lot of grief down the road and do it right the first time.

The shoebox of receipts

James: Perfect. So you've been working with KruzeConsulting.com. And in that process, you've seen a lot of different approaches. I imagine when you first take on a customer, you would find some pretty shocking and horrific accounting practices and systems. So I'm sure that's true, right?

Scott: Oh, absolutely. We literally have CEOs come into our office with a shoebox full of receipts. Like, that happens.

James: Well, you know, I've met CEOs who wouldn't even know where the shoebox is. [Laughs] I'm often surprised at the lack of understanding around numbers by business owners, and it's certainly something that we've pushed to the front of our awareness. In the high-level coaching that I'm doing, we have to know our numbers. We got to understand all sorts of numbers, so we'll come back to what sort of numbers are important in a sec.

But over the years, I went through that process as well, where I'm keeping paper receipts for everything and doing printouts and then a once-a-year tax return, which I used to just dread, putting all that stuff out onto the huge table. I had a large table, it was 1500 cms, which is one half meters, which is pretty big. It's like, probably five feet or something, I'm not sure exactly, but five by five. And it was full of papers. And I would write everything down in a journal, and then I'd go and visit my accountant, and then they'd do the tax return.

A process upgrade

And then of course through that we sort of upscaled to the process where he would send a bookkeeper out to my house once each quarter, we do our quarterly statements here in Australia, and we have a different tax year than the US. And she would come and go through all the papers, and then head off, but I'd get quite a large bill for that. In the end, he said, "Listen, I'm going to hook you up to Xero, and could you get someone in your team to just update your stuff as it comes through, set the rules, get it working for you?"

And now they just log in and say, "Are your numbers up-to-date?" And we say, "Yes," because they're up-to-date pretty much daily. And they just send me the amount I have to pay. It's gone from nightmare to dream over a series of years, and now we're just in front with our tax, with all of our compliance, with our director's things, with our superannuation or you call it, I think, 401. All of those things are up-to-date, but it wasn't easy to get there, and hopefully we can help people understand what they should be shooting for if they're starting out with a shoebox.

Scott: Yeah, and just continuing on your thread there, I mean your stress level has to be greatly reduced, right?

James: Oh, I'm really not stressed now compared to before, and probably one o f the biggest awarenesses when I would sit down and journal into the notepad and I'd add up the stuff, and then the final part, you know, the cream, if there's anything sexy or exciting about the accounting part of business, I think it's that moment when you've done all the work and compiled everything, and then you get all the totals and then you add it up and then you get your number, right? That was the first time in a year that I would actually know what my annual revenue would be, and my costs, and then where the costs were. And I'm like, "Oh my goodness, look how much we're spending on telephones," or "Look how much our hosting costs," or "Oh my god, we're spending 85 grand a month on AdWords? Who knew?"

Scott: Yeah. Or maybe you should have been spending $150,000 on AdWords because it was working so well, but you didn't know that because you weren't getting timely results.

James: The timing was the issue there. I was actually, when I was spending that much, I sat down at two o'clock every day with a big piece of paper, and I

wrote down all of my ad spends in one column, and then I'd go and look up all my affiliate sales and then I'd balance it out. And I knew daily if I was making a profit or a loss. But it was very manual, and the thing is, over a year, it's just too long a period to start making adjustments and fine-tuning and recalibrating.

Now I just want to put a little thought bubble around this. A very common mistake with business owners is they're obsessed about costs. They're like, cutting costs, cutting costs. And you just touched on a fantastic point. I think most people are not spending enough on the things that actually matter. But if you want to make good decisions, you need the data. So basically when I meet with the team, and when I'm planning my own business, we have to look at the data first, then we can make good decisions, and then we get to the do part, and we get into it.

Without the data, we're flying blind. And I think, it's my observation, a lot of business owners are completely flying blind. And they've probably got some tough landings coming. They might fly into the side of a mountain. There's probably examples where people lose their business, or have a tax bill more than the money in the bank account, or they're trying to be bought or sold and they can't actually provide any details so that turns the deal away. Can you give us some nightmares?

Some financial nightmares

Scott: Oh, yeah. We work with venture-backed startups, and you'd think the board of directors would be on the CEO for this kind of stuff too, but we have companies that literally don't know they're running out of money next month.

It's like they don't understand how to read their financials. And sometimes we have companies come to us, it's really sad, but they've hired kind of a not-so-great CFO, who's even stolen money from them.

Or the biggest one we see is office managers. You know, a lot of times CEOs will outsource kind of the bill pay, and the basic stuff like that to an office manager. We see it all the time – the office manager pays their own personal credit card with the company funds. And no one knows. And I would say one out of every 25 companies that come to us has some form of theft. It's not just not being adept at financial modelling or knowing when you're running out of money, but there's also some very simple processes you can put in place to discourage that, or make it impossible to steal money from a company. And that stuff adds up.

It just reflects on you poorly as a CEO if you're going out there and trying to raise money and your books aren't balanced or the investors don't know what the return on investment of your adwords account is, or how fast you're going to grow revenue. You need to be buttoned up and do it the right way.

I think you touched on something with your story about Xero. It doesn't have to be painful. It doesn't have to be hard. The cloud software has gotten so good these days, with Xero, with QuickBooks online, with Bill.com, Expensify. These services actually make it really, really easy to stay up-to-date. And I can talk about this some more, but you don't need to lay out all that paperwork on your giant table anymore. You can do it in the cloud, you can get rid of the paper, you can have everything sync, and you can see a really nice dashboard view of your financials quite easily.

The issue of fraud

James: Yeah, well, two things there. One, the fraud thing? Every large business I worked at, there was fraud happening and caught. It was astounding. Some of the simple ones to watch for: anything that involves a trade-in, there's a good chance there's fraud happening, because I saw this in one dealership I worked at – a salesperson was getting the trade-in, and keeping it, and then getting a check instead of the trade-in, and giving the company a check, and then he was taking the trade-in and selling it for profit on the side.

Another one in the phone company I worked for, someone was getting their phone trade-ins, and selling them on the side and then paying them back out

of the capital. But sometimes that merry-go-round stops.

Another time, if there's any cash involved. One sales person took a whole bunch of cash for a deposit, and then blew it at the casino that night.

Scott: Oh my god!

James: Thirty-something thousand dollars.

Scott: Yeah.

James: And then he claimed that he lost his suitcase with the money in it. And when we pulled back the curtain, we found all these other deposits, all these orders that were coming months down the track, the deposits had never made it to the dealership, and they'd been spent at the casino.

So look for gamblers. A common sign of a gambler is that when you hire them and they want you to pay into someone else's account, or they want to pay a trustee, they don't have a bank account in their own name, that's a red flag. Other things to watch for are people who never ever ever take holidays. They could quite often be covering up a little scam or a scheme.

Scott: That's an awesome point right there. Yeah, you actually need to have multiple people reviewing the financials and reviewing the processes, because you're exactly right. It's kind of accounting legend that people who do not take holidays oftentimes are hiding something. And not to cast aspersion on harmless people, but if your accounting staff is not taking time off, there may be something going on there. You actually want to get in there, watch them do their job for a couple of days in a row, and see what's going on.

James: Yeah, absolutely. Also, as a business owner, or running the business, I would sign every single check. I didn't give up the checkbook. If you give up the checkbook, there's a good chance you're going to find a stub a long way down the back of that book that's been torn out and removed, and one check missing.

We found stuff like the previous financial controller was paying for his rental accommodation advertising. You know, this was before Airbnb. I've seen the detail, I was buying too much wax for the dealership and selling it at the flea markets on the weekend. Like, it just happens. If you don't know your numbers and you've got a large business, it's almost certainly happening,

because people tend to, if they think they can get away with it or...they'll use justification too. If they're a gambler, then they've got all sorts of mindset things going on. If they have a sick family member or whatever and it comes down to sick family member's medication or ripping off the business, sometimes the sick family member might win out in the equation.

I'm certainly not talking about my business, I only have amazing people in my business, but I'm just talking about the larger businesses that I've worked in the past, we uncovered so many problems that could have been fixed by proper accounting procedures. Even simple things like cross-checking everything.

Getting rid of the paper

The second thing I wanted to just sort of hinge back on is the Xero thing, the way that that has worked for us. You're absolutely right, we got rid of that whole paper thing. Once you hook it up to the feeds, it's sucking in our PayPal account, it's hooked up to our bank accounts. So when someone buys something, it tips into our bank account or our PayPal or our Stripe, which tips it into our bank account. And then that gets matched up to filters, so the operator in Xero can start setting filters. When this comes from there, that's what it is. And it starts matching. And it can automatically, like the automation we're so used to with our marketing, sift and sort the financial transactions and just sort of predict where it should go, and then someone can just tick it off and go, yup, clear it. And it's all updated.

And the other thing that's cool about it is we set up a little Slack channel for my accounting group. There's two people in my business who have access to the numbers, and those two people, checking xero and our bank account and things. But if I go out today, and I buy lunch with my business card, it's going to pop up in Xero. And I'll send a little Slack note and explain what it is. Or if I buy a light, let's say I want a lampstand for my office, and I use my business card, then it will pop up in Xero on my Amex feed, and I'll just go into Slack and I'll say, "Office furniture." Basically, they're going to know instantly.

And here's the other thing. When my cards got stolen, my team were able to point out transactions that didn't look right. And just a simple thing that I did was hook my American Express up to the wallet on my phone, and it now puts a notification up any time my Amex is used. So I can see all of the transactions there. Like the last one for example, I just saw then, was a Google AdWords

thing, 38 minutes ago, and I can just say, "Yeah, that looks legit." And then I can scan down and see what the other thing, oh, there's some Facebook advertising, and an iTunes charge.

So I can see. If I see something that's not mine, you want to get onto it nice and quickly.

Becoming more transparent

Scott: Yeah. What you're really talking about is just the incredible degree of transparency businesses have now because of all these systems. And Xero is one of the best, and they even take that a step further. Things like Expensify and Bill.com now synch with Xero and QuickBooks Online.

So that stuff you're talking about where the filters, where you could automatically categorize a lot of these expenses, Xero's CEO talks about it all the time. They're actually running on top of AWS, and AWS's machine learning algorithms. So Xero is going to get better and better and better on these filters, to the point where a couple of years from now, I would expect us to be doing very, very little categorization work on behalf of our clients. And you know, we like that, because that allows us to do higher-level stuff, like help you with financial projections, or negotiate term sheets, or debt facilities, not get bogged down in that basic characterization stuff.

So the technology has gone really, really good. The systems are all talking to each other. And I think like two years from now it's going to be really incredible, really exciting for both the accounting industry, but also ultimately for our clients like you who are running businesses, who have limited amount of time, but want that transparency, that really benefits the company.

James: Well, see I don't really have a limited amount of time, that's a myth.

Scott: [Laughs]

James: Most people assume that, though. But really, I've designed my life to not be that way, as you would know as a listener.

The thing I like about Xero is that it transferred the labor from the accounting firm to my team. My team are easily able to manage this, without even accounting training. A couple of girls in my team are able to keep our numbers sharp. And now when we do other things, in Australia, we have other things

that we can apply for like export marketing grants. It's very easy to just pull out the numbers from the system on call. So everything can be accessible.

And I like the reporting as well. As a business owner, to be able to look at balance sheets and profit and loss and compare to previous periods, it can give you a sense of if you're making some progress or if you need to change something. You can compare each year in a row there and see what are the trends for our expenses or for our income from different categories. So it's so powerful. And that's why I think it's important that business owners get a handle on it. And what we're saying is, it's not even that hard to go from the dinosaur age of shoeboxes to having someone updating a tool that's semi-intelligent that's feeding from all of your inputs.

From bad to good scenario

So what do you do when you sit down with a new client in your business? How do you go from the bad scenario to the good scenario with them?

Scott: Yeah. I think the first thing we always do is ask them where they want the business to go. And you've built and sold and run a bunch of different businesses. You know, people's dreams are tied up in their business, and they're putting kind of everything they have into it – all their time, all their energy, financially. So we really want to listen to what kind of company they want to be, what their business model is, and then we put them on the right systems.

So inevitably, kind of the first thing we're going to do is get them on just basic accounting software. And what that is is, it's either going to be Xero or it's going to be QuickBooks Online. We're going to hook that up exactly what you described – hook that up to the bank feeds, figure out how far back we need to go, and we're going to build them financial statements in that accounting software. And we're going to set up the filters and the auto characterizations exactly what you were talking about, so that our work is kind of reduced going forward.

We're basically building them an income statement, a balance sheet, cash flow statement. And then for some of our more advanced companies, maybe it's a software as a service company that needs to do some revenue recognition. They get paid annually, and they need to recognize that over 12 months. We'll build spreadsheets that allow them to do that. But really we want to get you

the foundation of that first accounting system, QuickBooks or Xero.

And then the next two things we're going to do is we're going to put you on an expense management tool, like Expensify or Abacus. There's a few other ones out there. And what this does is it's very powerful, especially for taxes. It documents all the reimbursements for both the management team and the staff.

So James, if you're using your personal credit card, you can actually get Expensify to crawl your personal credit card bank feed, and that $35 lunch you were talking about will pop up, and you characterize that as a meals and entertainment, and that gets fed into Xero, or fed into QuickBooks, auto-categorized, because you've already done it once. And then a couple of years down the road, or maybe next year when the IRS comes and audits you, you can actually point the IRS agent to the specific URLs in Expensify that they're asking about.

We had a client that had five large transactions, and they were between the founder and the company, and this is something the IRS really looks at, because that's a good way of you know, if you were kind of a not a good person, you could shield income that way or hide money. The IRS really focuses on reimbursements back to the founder. We were able to give them five URLs that explained the entire audit. And it was crazy, because then three days I think, the IRS agent was done and finished and gave us a clean bill of health for that client.

So using Expensify or some other type of expense categorization and management tool is hugely powerful. You can also trigger the reimbursements to your team members through that. So that hooks up to the bank accounts, they validate it, and the team can actually get paid back for their reimbursements through the app, which is really, really powerful.

And the third tool we use a ton of is Bill.com, and that's great for uploading your invoices. Again, you're going to hook that up to your bank account, and you can create a permission workflow. So if I was doing your accounting I would upload the invoices I got, and then I would tag you in Bill.com and say, "James, can you please approve these?" That way, there's a very clear audit trail. That way you don't have to give up your checkbook, like you discussed earlier. I'm a huge fan of that. Like the CEO, the founder should know what they're spending money on.

And so that gives you a ton of visibility. You approve it, we'll click Pay, and the check or the electronic payment goes out through Bill.com. And again, because we've characterized that invoice or that bill, it syncs with QuickBooks, it syncs with Xero, we don't have to do the work twice, it's all taken care of.

And the cool thing about Bill.com or even Expensify, it allows you to search. So if you have a disagreement with a vendor, whether you've paid them or not or what the appropriate invoice was, you don't have to go digging through paper. You type in the search box, maybe it's Facebook, or maybe it's Bob's Plumbing, you can actually see all the invoices that have been loaded, all the invoices that have been paid, and you get real-time feedback on what's cleared and what hasn't cleared in the bank account. So Bill.com is a very powerful tool.

Those are the big three that I like to put our clients on. They again, make your life way simpler, they make it transparent, and you're only doing the work once. You're not doing it over and over again or searching for paper. It's very neat and tidy.

James: Yeah, that's super cool. I mean, we don't have some of those tools, but also we have a slightly different setup, being an Australian business and not having many Australian employees. A simple thing I've found is using my Amex for business expenses and my VISA NAB card for personal expenses. And I haven't hooked up my personal account to Xero because of that. It's just kept it really simple.

Keeping access limited

With the team, people might be thinking, well how do you do if someone overpays on a subscription or you have to rebate a portion or whatever? I've found you can use tools like your gateway or your Stripe account or PayPal account or add-on tools like Putler, which are good for PayPal reporting. You can issue refunds from those tools if you're a staff member with logins, but you never get access to the bank account. So you can give money back, but you can't spend money, which is nice.

Scott: That point you made about not having access to the bank account is a really important one. Where we're getting access, we're only getting Read-Only access, which means we can see the transactions but we can't trigger wires. And that's why I noted the Bill.com approval flow also. You don't want to give someone just carte blanche access to your bank account. That's another way

that $5,000 could go missing very easily.

James: Or they might clean it out and move to Bermuda or somewhere.

Scott: Exactly, exactly.

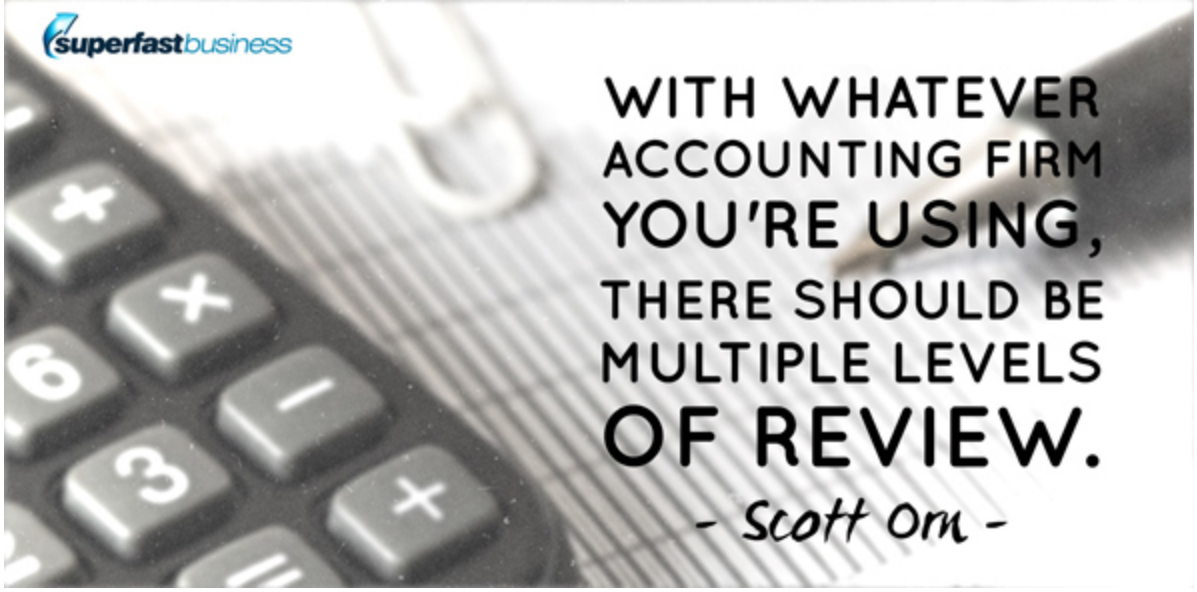
James: It doesn't make sense. I'm big on the token generators and two-factor authentication. I think the most vital thing as a business owner to not give up, and some people will oppose me on one of them, is the money, and my Gmail account. I'm not letting anyone anywhere near that, because that is like the motherlode of password resets and all the rest of it. I just think that and your bank account, you don't let other people... They can see it in Xero, they can see the balance, but they can't send money and stuff. It's like having nuclear launch codes with the two-factor authentications and stuff. But when you're moving large amounts of money around, it just makes sense to do it yourself. It's a high-value role.

Scott: I totally agree with you. Like, never give anyone the ability to send wires or anything like that. That is a recipe for disaster.

James: So what are your easy wins? We've talked about why we might want to get a little more systemized, we've talked about what some of the systems are. I've given a use case for me, I'm using Xero, I'm using someone in my team to reconcile, and we have an external accountant who prepares our files. How important is it to have some kind of an auditing process for your accountant, external or internal?

Should you audit your accountant?

Scott: That's the great thing about a lot of these tools, is you the business owner can go in and actually check the workflow, and check and see who did what. So I'm actually a huge proponent of that. And that's actually one of the great things about these tools is, I can actually show... especially for like, if you think your accountant is overbilling you or something like that, I can actually go in and show the founder all the time we spent, all the transactions we've taken care of. Because sometimes, it's hard for the founder to conceptualize what two years' worth of financials and building those, how much time that actually takes. So having those audit tools in the software is really powerful.



I also think whatever accounting firm you're using, there should be multiple levels of review in that accounting firm. So the way we do it is we have a staff accountant who kind of does the basic reconciliations, and then our controller will go in and make sure that's done correctly. I almost always make changes. And then we'll have a CFO actually just take one quick look before it goes out to make sure it's done properly. Or for the more advanced things we're going to spend an hour or two on it. But having those multiple perspectives is a great way of catching fraud. It also just makes sure the work gets done properly. So I'm a huge fan of that.

And oftentimes, our firm doesn't do audits. We just focus on getting startups on the right systems, getting them going. But at the later stages, when a company's raising 20, 30 million dollars of capital, the investors are going to want the company to go through on audit. And we actually like that because it's great for us, it kind of validates the hard work and all the processes we put into it. But I really do recommend that. If you're an investor and you're going to put 20 or 30 million bucks into a company, you definitely want to make sure those books are done correctly and there's nothing hiding in the sheets.

There's been times where we've taken over clients because the CEO felt like it wasn't being done properly. They couldn't quite point out what was wrong, but they didn't feel like their prior accountant was doing their job. Then we come in, and we'll find a bunch of hidden transactions, or stuff that was kind of papered over. And some accountants who aren't that great get pretty good at hiding their mistakes. And so having that second set of eyes can be very helpful and kind of help you uncover things if they're not going correctly.

When your accountant's good

James: Yeah, that's a good one. Sometimes you see in the paper an accountant disappears with all the money, and clients are left ruined. I think it's important to have a good relationship with whoever your accountant is, to get some referrals, a word of mouth.

And when you get a good one, like nail them down, because I think I'm on my third accountant now. My first one was a small business guy, real family man, but just wasn't very innovative. The second one was too innovative and sharp, and all of his clients got audited because he was too greedy and he was expensive.

Scott: Oh, wow.

James: And then the third one, I call him "Goldilocks", he's basically switched-on, youthful but experienced now, because I've worked with him for at least a decade, longer, probably 15 years, so he's gone from young guy to senior partner. And he's innovative, but not edgy and shifty.

So I found a good one and you stick with that, and they help you through. Because having a great accountant on board makes such a difference when you are buying and selling things, when you grow your business to scale, and the money starts to matter, when you need to think about ways to preserve legacy, protect yourself from risks, and also to work in coordination with your legal representatives. I've found an accountant who will happily get on the phone to a lawyer who's trying to put together a deal or an agreement and talk about which entity, what's the right structure, where should the funds go.

So how you treat the money can make a significant difference. And I'll give you a dramatic example of this. A friend of mine I had breakfast with earlier this week helps big companies and he helps them with their research and development stuff. And the way that they treat one of the line items in their balance sheet made a difference of seven million dollars in their available tax rebate, depending on what they called it, because of the certain way that the government views some costs versus others. You're talking about the difference between planting equipment versus just your regular sort of income.

These things are important to get right, so I think a solid foundation for financial structure and infrastructure is essential. It doesn't have to be expensive. It's important enough if you ever want to sell the business, or you want to grow it, you're going to have to dial in on your numbers.

The numbers to watch

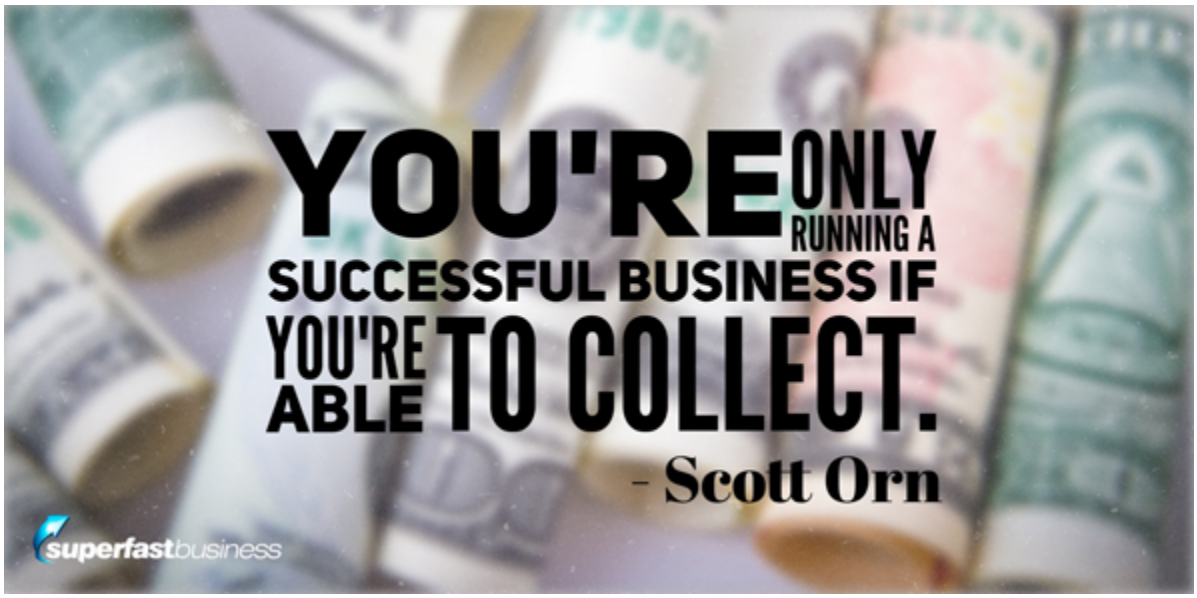
Let's talk about dashboards. Is there a couple of reports or numbers you think that business owners should pay more attention to than others?

Scott: Yeah. For our fast-growing kind of bigger companies, we provide what we call a weekly dashboard. So probably the first thing is, look at your dashboard, whatever you determine your key performance indicators are or KPIs, look at those once a week, once every couple of days maybe. Really make sure that you're internalizing that, because those are the things that really matter, and oftentimes some of the key ingredients there are going to be your marketing spend, which is shorthand for customer acquisition costs, right?

And another thing you're really going to look at is your long-term value of the customer. And that's made up of two big things, which are churn rate, and then the revenue per customer or what you're charging that customer. Those three sets of numbers right there will tell you almost everything you need to know about your business, kind of in a dashboard way.

Now when we provide dashboards, we're usually providing a full income statement. So they can see what their revenue was, what their costs of goods sold, what the cost is to deliver the service, and then their overhead and

showing their net income.



We also provide a cash flow statement, which is sometimes people get a little bit tricked into thinking they're invoicing their customers and their customers owe them a lot of money, but they're not great at collecting. They think they're running a successful business, but ultimately you're only running a successful business if you're able to collect that cash. And so a cash flow statement will really help drive that home. It'll show the founder that hey, yeah, we booked great revenue, accounting revenue, but hey, accounting revenue doesn't pay the salaries of the team. We need to be able to collect this.

And you'll see on the balance sheet, which is kind of the third statement, you'll see accounts receivable going crazy. Or you'll see that you have a looming cash crunch, because your accounts receivables going up like crazy, and you haven't paid your accounts payable or your vendors in a couple of months, and so that's looming, and you could put yourself in a really difficult position.

We're advising our clients, we're providing them the full income statement balance sheet cash flow, the three core statements, but there's certain specifics you want to look at. You really do need to look at your customer acquisition cost, your long-term value of the customer, and then make sure on a cash flow basis you're actually collecting that cash and you can reinvest that back into the business.

When people don't pay

James: I'm so glad you raised that. You see this sort of thing in Facebook posts sometimes, people saying, what do I do if this customer doesn't pay and stuff.

It's close to my heart, because I came from a background of debt collection – accounting, debt collection and then sales. So I went sort of backwards through the whole thing.

And you can't go down to the local shopping center and buy food with money that someone owes you, so you need to get it, and a few things can happen there. One is, the proper pricing and packaging model where you get paid upfront, which is my favorite, because you don't have to charge a premium for debt collection. And then there's just keeping an eye on other things. You know, I did a promotion earlier this year and I was just thinking, wow, I don't think I've actually been paid for it. And I had to chase down someone, which I resent having to do, because it's unfortunate and it's a substantial amount. But then, you know, you got to follow it up.

So actually in my project management task tracker, I have a debts outstanding board. And it's pretty small, but it's for things you might not ordinarily think of. Another example, I banked a check with my bank, and it was like 30-something thousand dollars, and it was a US dollar check, so they have to send it over and get it but they didn't deposit the funds straight into my bank account, so I'm just keeping an eye on that, because if they don't, at some point I'm going to have to go down there and say, "Hey guys, that check, this receipt stub, do you mind putting it into my account?" It might take a while to go all the way over there and approve, apparently it was over some threshold. But that's a chunk of change I don't want to forget about.

And then there's other stuff. Like I've got a friend of mine selling something of mine, so I just put that in my little debt-tracker, make sure one day that he either gives me back the bicycle, or he gives me the money. Which is fine, and it's just keeping it in my mind. So anything that I think of, if I loan somebody something, which I very rarely do, but if I were to, I just put it in that little debt tracker, and I'm keeping tabs on it, because there's no other system in my business that will, if I don't.

Scott: Yeah. You made a bunch of really great points there. The first is just keeping track of it in a structured way. We use Basecamp for everything. We have 140 clients on Basecamp, and those little reminders, those little things that fall through the cracks, we found that using Basecamp helps us remember that stuff, can follow up and do collections, and make sure things get paid. So I really agree with that.

Why subscription is the way to go

And then the other thing is, you talk a lot in prior podcasts about the power of subscription business models, and we totally agree. In fact, most of our most successful clients are all subscription revenue businesses. And one of the powerful things about subscription is you can put people on recurring billing. And so that actually gets rid of one of the big distractions in the business, which is collections. So getting their credit card, running it through Stripe on a monthly basis or setting up re-occurring billing in Bill.com, those things really, really work.

And it's not just about saving time on collections, which is very powerful, but it also gives you a ton of visibility into your business. So you know that you're going to be able to count on a certain percentage of your business going forward, which allows you to make smarter investments, which allows you to invest in AdWords or Facebook marketing channels, or maybe more capital expenditures to help grow your business.

I'm a huge fan of the subscription business. One of the main reasons, because it helps collections, but it also just gives you that visibility and transparency that we keep coming back to.

James: Yeah, and it's why I really like the metrics you're tracking there of the churn. Really, a business like mine which is almost, it's 90-something percent recurring, churn is a significant number for me. It's something I want to keep an eye on and keep nice and low.

Automate it

Back to the recurring and prompts. Before I had Xero, I has FreshBooks. And before I had that, I used to open up an invoice on my computer and change the date on the invoice each month, update the number, and send it off to my two clients that I had paying a substantial amount each month for services. And it was very manual. And then I'd print it off, stick it in an envelope, and put a stamp on it and send it off to them in the post, because they're old school, you know? By the way, in Australia, we don't do checks as much as you guys do in the States. But there are some customers who still send checks. It's rare, but it happens.

And then I switched to FreshBooks, and it would actually automatically create

the invoice, and print it off and post it with a stamp to the customer, and then I'd receive back the remittance advice with a check, hopefully, at some point. And it was automated. So it was just such a significant breakthrough to not even have to lick the stamp, or I think they're stickers now, anyway. But to not have to put a stamp on an envelope and address it and send it off, it was like, I really had to work hard for my money. It was the most work I did to manage those accounts was actually printing off the invoice and mailing it, and then I didn't even have to do that. And if you can't use a tool like that, at least human-automate that. Have someone else in your team do lumpy mail, if you're having to send out lumpy mail.

Scott: Yeah. I actually used to work with FreshBooks in my prior company. I'm a huge fan of the team there. They really were pioneers in invoicing, especially for small and medium-sized businesses. It's a really great tool. And you know, the other positive about that, not having to send stuff in the post, or the mail, is your cash conversion cycle probably got a lot better. You know, after you sent that FreshBooks invoice, or now Xero invoice, or whoever you're using, your clients can actually just either pay you through credit card, or it's automatically purchased.

Shrinking that cash conversion cycle

And that is a huge impact for your business, because by getting that money kind of two weeks earlier or one month earlier, your cash conversion cycle is so much better. You can reinvest in the business a lot faster, and those extra dollars you're able to put into marketing a lot sooner, gets you new clients sooner, which gets you more revenue sooner. So it's really, really powerful shrinking that cash conversion cycle.

James: Yup, well that's the name of the game. In the car industry, we used to look at stock turns, because that car sitting on the lot is chewing up interest on the floor plan. It's expensive to sit there, and we need to turn it around quickly. In the recurring subscription business game, you want to make sure you deliver a result before the subscription period expires. So I used to track numbers like days to completion for services. So if you're in a service business like yours, for example, if you have customers on a recurring subscription, you might track how many days it takes to complete each customer's task so that you're well and truly finished by day 20 of the month, and then the customer's not feeling like they never got what they paid for for the month.

Scott: Yeah.

James: And then they tend to stop paying. So quite often, as soon as you start to have delinquency, which is I think what they call late payers, and you drill into why are these people delinquent. Sometimes it's not that they don't have the money, it might be something else. They're not feeling the love, or something else. So having intelligence tied to some of those numbers can really be insightful as to how to scale your business better to reduce churn and increase your revenue.

Scott: I totally agree.

Takeaway tips

James: So, just to wrap up here, Scott, what would you say is important that we impart before we conclude this? We've sort of had a look at some systems and processes, we've talked about the types of clients that are going to get the most from this. It sounds like anything from a startup through to a reasonable-sized business is going to be using some online elements these days. I know you're especially focused on the US market, or for Australian and European customers who have a USA subsidiary, then all of this stuff's going to apply to them as well. And we've also just thrown in a few little street-smart tips there, from fraud detection to ways that you can track different expenses, private or business, and how you can leverage an external and internal team. What have we missed?

Scott: I think you encapsulated it really well. The only thing I'd add is, it doesn't even have to be a small business. It could be a two-person shop to five to 10 people. You're still going to get a ton of value out of these software services. And you know, your Xero example is perfect. And Xero is very, very strong with those smaller businesses, because it gives really that transparency to make smart decisions. And QuickBooks Online is the same.

But I think these tools and these processes will literally help almost every single person in your audience, like, no matter how big of a business. And these tools do scale up, so a hundred, couple of hundred people businesses are really going to still get leverage out of Bill.com, Expensify, Xero, QuickBooks. But you're never too small to use these tools. That's the main thing I want to leave your audience with.

Using these tools, getting going, it'll give you that visibility, it'll help you run your business better. It'll help you be compliant with taxes, which will save you a ton of penalties and headaches. And really, ultimately, at the end of the day, it'll save you a lot of stress. It'll let you do what you love, which is the reason you got into the business, which is building something, serving your customers, and ideally making a profit and being able to reinvest in the business.

James: Yeah, that's it. I really like your point about not being too small. There'll be some micro businesses here of one, or as I like to call them, jobs. [Laughs]

Scott: [Laughs] But those are perfect. You know, FreshBooks is there for that one person, but Xero can do it too.

James: I moved to Xero because it's just a more robust tool, does a lot more, and I outgrew FreshBooks. Plus, I didn't have those clients that needed the electronic printout to physical, which was crazy. But in any case, look I still use project task tools and stuff, just for myself or with one other. You can use best practice that would scale as a one-person operation, and then as you scale it just becomes easier. It's really breaking the back on the stuff. The things that you're hanging onto yourself as a solopreneur are the things that stop you from having a business and that keep you in a job as such.

I think it's been fun. It's actually more fun than I thought talking about accounting-y stuff. Scott, thanks for bringing your fun to the episode. You can be found at KruzeConsulting.com. Appreciate you reaching out and sharing some of these tips with our audience. Hopefully, you'll answer any questions if we get a couple below the post at SuperFastBusiness.com. And yeah, it's been great having you on the show.

Scott: Thank you James, it's been an honor and I think we together gave a lot of good tips, and I'll certainly check the post page and answer any questions that come in. I'll be happy to do it.

James: Legend! Thank you!

Scott: Awesome!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