KNOW YOUR NUMBERS

CREATE THE RULES

CREATETHERULES.COM

THE PROFIT PLAN

USE POLICY

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Why We Do This

I think I have lost count how many times I have started off coaching with someone and have asked “How much income do you want to make over the next 12 months” and sometimes there is a certain number and sometimes there is a long drawn out pause and a really low number accompanied by the phrase “at least”. I then follow up and ask “Why that number?” Sometimes it comes from an income they used to have in a corporate job and sometimes it’s a number they have seen others reporting.

Most of the time - it’s not their number and they have no idea why they should be working towards it. This means their product and service pricing is also not where it should be.

So here is what I know for certain - running a business is like riding a bike. If you start out on a bike ride, with no idea where you are going, you will never know if you ever actually reached your destination. You will just keep pedaling until you’re exhausted. And if you don’t set any time or parameters around it - you definitely will just keep going until your bike breaks down or you do.

We don’t want tired and broken down business owners. One of the best ways to ensure that you have a thriving, prosperous, resilient business - make sure the owner is thriving, prosperous and resilient.
If you don’t know how much money it takes to make either of those happen - you’re going to price your products and services so they never actually add up to the amount you really need to make. This leads to spending more time, money and resources on the products and services that don’t actually fuel your business.

So let's start with money and time goals. I recommend this exercise AT LEAST once a year, but it is better quarterly. We always plan out for a rolling 12 months because while our taxes might run annually, our needs in life are rarely the same from January to December. If we keep checking in, we can adjust and change our tactics to keep fuelling our lives AND our businesses. So let's get started - remember you Create the Rules so you get to determine what you actually need to thrive. I will give examples of what others have created for themselves but you get to ultimately decide what goes into this exercise.

The one thing I will caution is that sometimes we let the terms "I can't justify it" or "I just can't right now" influence our decision-making. That is a good opportunity to test if it is true. A good example is first class air travel. I had a colleague say to me that she couldn't justify flying first class to Australia - a 14 hour flight from our home. At first I nodded and then I tested to see if it was true for me and discovered that the idea that I could sleep a full eight plus hours lying down while on the plane would mean I could land in Sydney at 8AM and get a full day without jet lag or exhaustion to make a vacation out of my work trip. Yeah, then I COULD justify it.

But I had to get out of borrowing her belief system about it being worth it. **To me - it was.**

To her - she said she would just go exhausted. What works for her wouldn't work for me, but it was easy to almost get trapped into the justification she was presenting to me.

Chances are, during this exercise, if an expense comes up - it's meant to be written down and included in your life. Trust your intuition.

INSTRUCTIONS

On the left side of the page, you're going to write all of the things you need in your life & business that cost money. You can do this separately or together. I tend to start off with one big list and then I transfer both to separate spreadsheets so they actually become the budgets we use on a daily, weekly and monthly basis.

But to begin, I do this exercise together because my business fuels my life. On the right hand side of the page, you're going to write the yearly cost for it. For example, I need a weekly 90 minute massage to make sure my body is well to support myself and my business. That costs $5675 a year. My mortgage or car payment is monthly, but I will put the annual amount down. Then add up all the yearly expenses and you get your annual take home income. You will then take that number and add on the percentage of your personal and/or corporate taxes. (Check with your accountant)

The reason why we do this yearly - well there a few very great reasons. Rarely in any business do you make the same amount each month. It's just economics. Sometimes the products and services you sell are seasonal or it might just be your life accommodates for a lack of focus on the business and an increase focus elsewhere (like, kids on summer break)

The idea is that your expenses occur monthly all year, but some months you might make more or less but still working towards that yearly budget.

If you do want a monthly income goal - take the total with taxes and divide by 10. The reason why I suggest by 10 is that gives you 8 weeks off in the year for vacation. We do need time off! Adjust that number to go along with the time off you require. 10 is a good place to start.

A few things to think about when doing this exercise:

Think of staff before you absolutely need them. If you need to bring on an accountant, a personal assistant, a shipper or any other employee, you need to include their salary into this list. This means you will price your products and services now to include their salary for later. I often hear people say "When I can afford to hire..." but that means your current products and services are not at the price you need to hire.

Better to make that adjustment now.

Think of expenses that make your life better. A housekeeper, a pre-cooked meal service, a web designer, etc that helps you be more in your zone of genius. We tend to try and do everything ourself. Let's build a business that supports a great life.

If you don't know how much something costs - spend the time to do the research. Get quotes, look up the price and ask others who already have the item or use the service. The more accurate this is, the more your pricing and product line will support you.

The Budget (and Financial Forecast)

WHAT I (AND MY BUSINESS) NEED IN THE NEXT 12 MONTHS TO THRIVE	ANNUAL COST
Laundry Service	$4200
weekly 90 Min Massage	$8060
Oh Sh*t/Sweet Fund	$10,000
Health Insurance	$6,000
Equipment	$5,000
Team Wages	$250,000
Mortgage	$10,800
Clothing	$1000
Professional Development	$10,000
Travel	$5,000
Business Systems	$10,000
Food	$6,500
Legal Costs	$10,000
Car Payment	$3,000
Entertainment/Fun	$3,000
Ads	$30,000
Photography	$8,000

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WHAT I (AND MY BUSINESS) NEED IN THE NEXT 12 MONTHS TO THRIVE	ANNUAL COST

Personal Expenses

- Mortgage
- Rent
- Clothing
- Esthetics/Grooming
- Massage
- Health Insurance
- Savings
- Retirement fund
- Food
- Children's activities
- Movies/Entertainment
- Vacations
- Car payment/purchase/fuel
- Utilities
- Other Health Practitioners
- Renovations
- Life Insurance
- Travel
- Gym membership/personal trainer
- Housekeeper
- Meal Planning/Delivery
- Gardener
- Driver/Taxi/Uber/Bus

Business Expenses

- Staff
- Lease/Mortgage
- Display
- Email Services/Website/Domain
- Accountant
- Lawyer/Legal Fees
- Telephone
- Association fees
- Equipment
- Memberships
- Stock Photography
- Product
- Advertising
- Custom Photography
- Courses/Training/Conferences
- Travel
- Coaching
- Graphic Design
- Insurance
- Market or Show fees
- Software
- Social Media Management
- Transportation
- Business Licensing
- Internet

Additional Notes

I recommend having a savings, a retirement fund and then an oops fund. That oops or opportunities fund can be used towards a new roof or furnace or go to a really cool conference or vacation spot. You know, the emergency stuff you didn't plan for.

I like to always keep it in a separate account and then once it goes double the amount I want to keep it at, I take that extra bit and throw it into a long-term savings plan. I have a client who takes that extra money and puts it into buying new equipment.

Remember, we're building resiliency and part of resiliency is always have the finances to respond to bad things coming our way.

DUAL OR MORE INCOME HOUSEHOLDS

It can be tempting to only put half the requirements or even to miss some of the things on the list if somsone else in your household is currently responsible for that payment. But what happens if suddenly that person is not able to make that payment? Part of being resilient is to plan for the high end of expenses. If you don't end up spending all of the required amount, it can go into savings, retirement, an unexpected trip or a splurge/upgrade on something you already planned for.

What Are We Working Towards

THE YEARLY TOTAL

MONTHLY

An important thing to note here is that this monthly number doesn't mean you won't earn income for two months of the year. Even if you were to take two months off consecutively, you will structure your business to provide income for those two months. This just gives you an idea of a monthly goal to work for. If you have high seasons and low seasons, you can alternately divide this number accordingly.

For example if Christmas is a big time for you, you might take the yearly number and times it by 60% of your income if 60% of your sales happens during this time. Then take this number and divide by the number of months you are actively selling. In the example of Christmas - your selling probably begins October, November December. So the take the 60% of your yearly income and divide by 3. This gives you the amount you will need to sell during those months in order to meet your goals.

Then you would take the remaining 40% of your income and divide by 7 to determine an average monthly income goal for the remaining year. This is also useful for launches versus ongoing or residual income.

Next Steps

The first time you do this exercise, you will leave stuff off. You'll also keep adding to it as you go.

Even as we move through all five steps of the Profit Plan in Create the Rules Catalyst, you keep adding stuff into this.

I love using Notion, Excel or Google Sheets for this exercise because it lets me keep adding to it. Then I have a fluid budget and financial forecast always on the go so I can adjust my marketing, products and services as I go to make sure I am always meeting my financial goals.

Tomorrow we are looking at how your current products and prices fit into this financial forecast and how we use the Profit Plan to always make sure we are pricing appropriately.