



## *Understanding Professional and Personal Profitability*

# INTRODUCTIONS



## *Tracy Bech*

- 20+ years as a hands-on entrepreneur in both product and service businesses
- Started ran, and exited 2 successful businesses
- 9+ years of consulting to small businesses
- Co-founder 60 Minute CFO
- CEO at Starboard Collectives (best practice groups and financial consulting in the moving industry)



## *Lauren Deeley*

- Personal finance badass
- Financial Advisor
- 20 years experience w/ multiple income sources, self-employed, variable income worlds
- Focuses on planning for Solopreneurs, entrepreneurs, women & members of the LGBTQ+ community
- Just completed her first 100 mile run!

## GOAL FOR TODAY

To give you confidence that your professional and personal  
finance goals are aligned

**\*WITHOUT WORKING HARDER\*.**

## LET'S START WITH WHY

Take a quick moment to think about WHY you are in business? Typical reasons:

- ▶ To build wealth
- ▶ To do what you love
- ▶ To provide jobs

What's yours?

## PROS AND CONS OF OWNING YOUR OWN BUSINESS

**PRO:** Owning your own business allows you to make your own decisions around all aspects of the business.

**PRO:** Choosing to optimize profitability allows for more profits for the business and ultimately YOU.

**CON:** Most business owners are good at what they do, but do not have a lot of business finance experience which leaves their business vulnerable to poor financial practices.

## WHAT WE WILL COVER TODAY

- ▶ How to optimize profitability in your business.
- ▶ How to optimize “profitability” in your life.

*First, let's talk about business finance...*

## INCOME STATEMENT ANALYSIS

- A recent financial statement I looked at was 12 pages long and had over 15,000 numbers on it.
- There is a tendency to look ONLY at the numbers.
- But they don't tell you everything and they may be misleading.
- Need to look at key relationships.





# *Example*

Would you say a net profit of \$5 million is good?

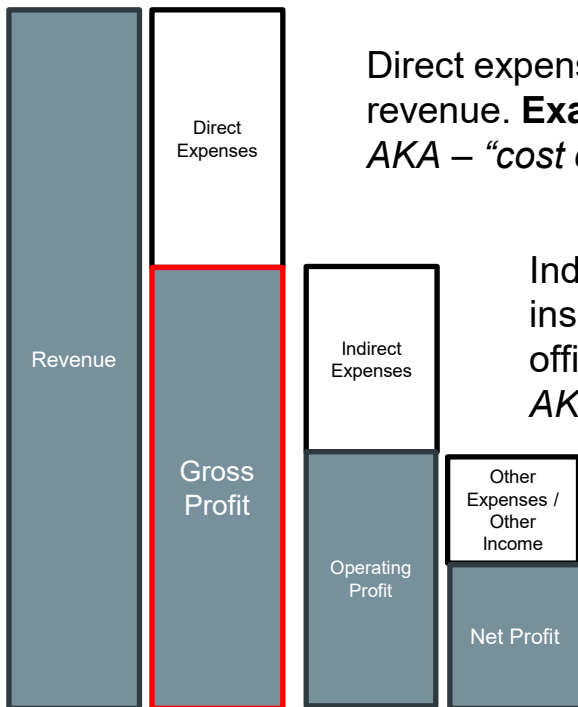
- What if revenue is \$5 billion? A disastrous year!
- What is your net profit *in relationship to something else?*



## 3 LEVELS OF PROFITABILITY

- ▶ Gross profit margin
- ▶ Operational profit margin
- ▶ Net profit margin

# THE INCOME STATEMENT STRUCTURE - BUSINESS

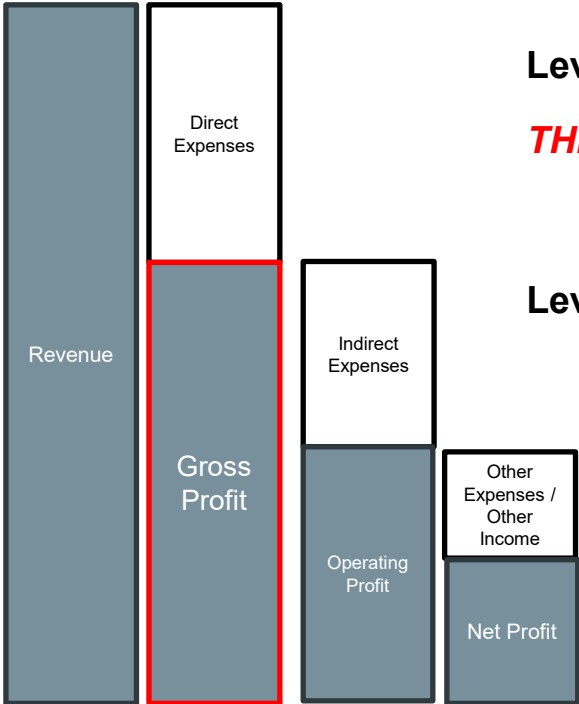


Direct expenses are directly related to producing revenue. **Examples:** direct wages, inventory, shipping.  
*AKA – “cost of goods”, “cost of sales”*

Indirect expenses. **Examples:** include office, accounting, insurance, travel, entertainment, advertising, professional fees, office staff **AND YOUR SALARY\*\*\* MORE ON THIS COMING**  
*AKA – “overhead”*

Includes non operating expense and income, and interest expense. **Examples:** PPP, ERC, proceeds from sale of an asset, dividend income, lawsuit settlements, relocation costs, interest payments

# INCOME STATEMENT ANALYSIS - BUSINESS



**Level 1: Gross Profit / Revenue = Gross Profit Margin**

***THE MOST IMPORTANT LEVEL***

**Level 2: Operating Profit / Revenue = Operating Profit Margin**

**Level 3: Net Profit / Revenue = Net Profit Margin**

## LITTLE CHANGES AT THE TOP MAKE BIG CHANGES AT THE BOTTOM

- Increase GPM by 1% to get a 25% change in net cash

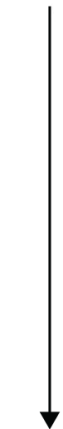
Revenue	100.0%	<b>100.0%</b>
GPM	37.0%	<b>38.0%</b>
OPM	5.0%	<b>6.0%</b>
NPM	4.0%	<b>5.0%</b>

Revenue	\$5,000,000	<b>\$5,000,000</b>
GPM	\$1,850,000	<b>\$1,900,000</b>
OPM	\$250,000	<b>\$300,000</b>
NPM	\$200,000	<b>\$250,000</b>

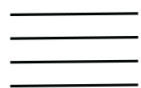
**25% increase in cash!**

# THE DOLLAR BILL GAME\*

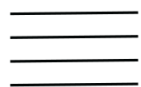
1/x% =



Revenue

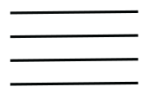


COGS



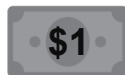
Gross Profit

Expenses



NET PROFIT

= x%



<b>Revenue</b>	<b>\$1.00</b>
COGS	\$.50
<b>Gross Profit</b>	<b>\$.50</b>
Expenses	\$.40
<b>Net Profit</b>	<b>\$.10</b>

There are 2 ways to make a dollar:

1. SAVE a dollar in COGS or Expenses
2. EARN \$10 to make a \$1 profit

Always remember what is required to  
**MAKE A PROFIT.**

\* Source: *The Great Game of Business*

## AS OWNERS, HOW DO WE PAY OURSELVES?

- ▶ Salary/W2 payments
- ▶ Distributions from net profits
- ▶ *When/if there is money to pay ourselves*

## IF YOU ARE NOT PAYING YOURSELF A MARKET RATE

- ▶ You are artificially inflating the profitability of your business because you are not showing it as part of your expenses.
- ▶ You are not well-positioned for an exit (and remember, unless you just close your doors everyone exits - whether you sell, retire or die).

## SO HOW SHOULD WE PAY OURSELVES?

- Research market rates for your skill/service and make sure you are paying yourself for what you would need to pay your replacement.
- If there are additional profits that can be distributed, you can distribute those based on your personal and professional goals.



## HOW MUCH MONEY TO LEAVE IN THE BUSINESS

- ▶ On a practical level - what's your safety net so that debt can be a choice?
- ▶ Usually, 2-3 months of expenses for businesses that are not highly seasonal/cyclical. (Be able to float yourself through the off season.)

# THE VALUE OF LEAVING MONEY IN YOUR BUSINESS

A dollar invested in your business OR your personal life will always be your fastest way to path to making more money.

## RETURN ON EQUITY

Rate of return = net profit / equity

Compare this rate of return to other investments:

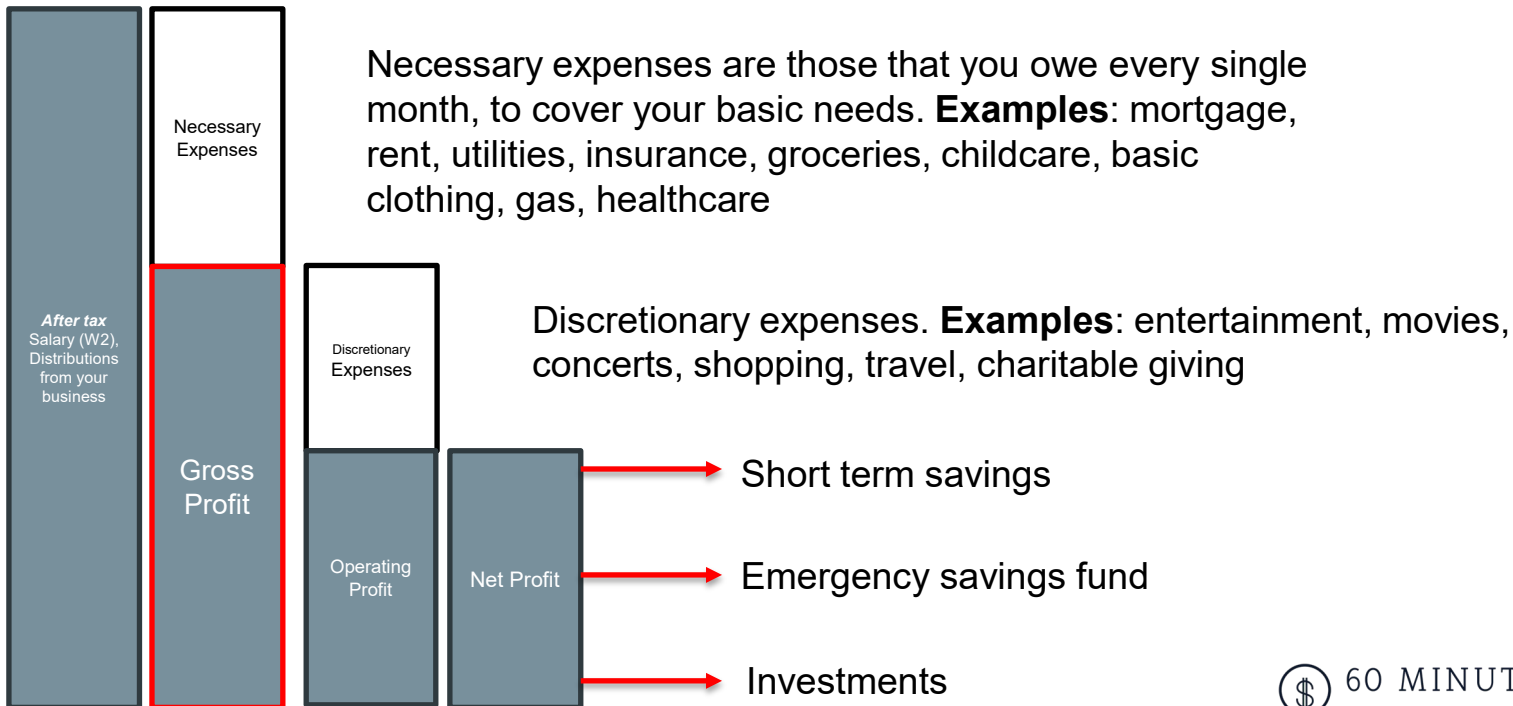
- Stock market = ~7%
- Real estate – Varies by market
- High-yield savings, bonds, CDs, etc – varies, usually under 5%

\*All investments carry some level of risk, including the potential loss of principal invested. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. The data does not account for taxes or transaction costs.



# *Making It Personal*

# THE INCOME STATEMENT STRUCTURE - PERSONAL



## Saving By Design

Diversifying your assets can provide financial flexibility. However, it's important to understand how you will break down your savings throughout the years—properly utilizing your dollars.



1. All investments carry risk, including potential loss of principal. 2. The primary purpose of permanent life insurance is to provide a death benefit. Using cash value to supplement your income will reduce benefits and may affect other aspects of your policy.

# Business Life Cycle and Needs

	Startup	Growth	Maturity	Transfer
Risk Management	<ul style="list-style-type: none"> <li>Protect yourself and your ability to do business</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your plan and coverage to ensure business continuity</li> <li>Share your continuity plan with your select key employees and your bank to foster retention and access to loans and lines of credit</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your plan and coverage to ensure business continuity</li> </ul>	<ul style="list-style-type: none"> <li>Share your plan and coverage with the new owner</li> <li>New owner continues and adapts the plan and coverage to meet business needs</li> </ul>
Employee Benefits	<ul style="list-style-type: none"> <li>Offer group benefits to attract and retain employees</li> </ul>	<ul style="list-style-type: none"> <li>Offer a qualified retirement plan for all employees</li> <li>Enhance your program with additional benefits to attract and retain select key employees</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your programs to ensure competitiveness in attracting and retaining employees at all skill levels</li> </ul>	<ul style="list-style-type: none"> <li>Share your programs with the new owner</li> <li>New owner continues and adapts the programs to meet business needs</li> </ul>
Exit Planning	<ul style="list-style-type: none"> <li>Build and grow your business while keeping continuation and succession in mind</li> </ul>	<ul style="list-style-type: none"> <li>Set your objectives</li> <li>Calculate your business's value</li> <li>Choose the new owner</li> <li>Implement and fund your written buy-sell agreement for retirement, disability and death</li> <li>Share your strategy with your select key employees and your bank to foster retention and access to loans and lines of credit</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your strategy and funding to ensure the orderly transfer of your business</li> <li>Because estate taxes can be your largest liability, determine your liquidity needs</li> <li>Enhance your strategy to preserve your estate's value and efficiently transfer wealth to your family and heirs</li> </ul>	<ul style="list-style-type: none"> <li>Execute your strategy</li> <li>New owner creates and maintains his or her strategy and funding</li> </ul>
Personal Financial Planning	<ul style="list-style-type: none"> <li>Protect yourself, your family and your assets</li> <li>Create or continue to refine your estate and retirement savings plans</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your plans and coverage to ensure that you and your family are financially secure</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review and update your plans and coverage to ensure that you and your family are financially secure</li> </ul>	<ul style="list-style-type: none"> <li>Enjoy the rewards of your hard work while ensuring your estate and retirement income plans continue to provide for you, your family and heirs</li> </ul>

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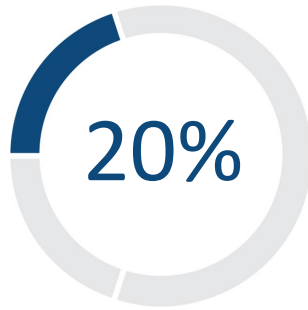
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# Advisor Coordination in Comprehensive Financial Planning

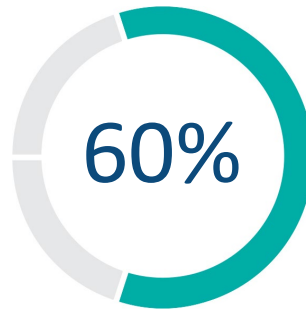


# Compare Spending to the 20/60/20 Rule

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**Saving/Investing**  
Short Term Savings  
Emergency Fund  
Investments for Future



**Essential Expenses**  
Health Insurance  
Life Insurance  
Disability Insurance



**Discretionary Expenses**  
Entertainment  
Clothing  
personal care



If your current spending doesn't align, look for ways to adjust.



# NEXT STEPS



## *Tracy Bech*

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Sign up for the next **Live Cohort** on [60minutecfo.com](https://60minutecfo.com).



## *Lauren Deeley*

**Want to dive deeper?**

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