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20+ Years of Real-World Experience Supporting  
Hundreds of Small Businesses. Sequel to  
management accounting best-seller.



# THE FINANCIAL OPERATING SYSTEM® FOR MARKETING AGENCIES



EMPOWERING AGENCY OWNERS TO TAKE CONTROL  
OF THEIR FINANCES AND IMPROVE THEIR  
FINANCIAL FITNESS

BY CALVIN WILDER

**THE FINANCIAL OPERATING  
SYSTEM<sup>®</sup> FOR  
MARKETING AGENCIES**

**By Calvin Wilder**

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**The Financial Operating System®**  
**This book is dedicated to owners of**  
**marketing agencies**

Too many agency owners are struggling:

1. They are not making the money they hoped to be making when they started their business
2. They don't know why
3. They don't know what to do about it

Others are doing OK now, yet want to know how to better use financial information to manage and scale their businesses for profitable growth.

I've helped many business owners overcome these challenges, empowering them to:

- ☑ Understand the financial performance of their businesses
- ☑ Take control of their finances
- ☑ Make more informed decisions
- ☑ Improve profitability

This book lays out a proven, 6-Step process for agency owners to improve their financial fitness. This book also presents basic accounting principles and practices every small business owner needs to know.

This book is intended as a do-it-yourself guide. If you would like assistance implementing The Financial Operating System® including upgrading your bookkeeping, accounting and finance function, please contact me:

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# Why This Book?

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Many owners of agencies are struggling financially, or at least not achieving the financial success they'd like to have. Other owners are doing OK financially, yet believe they could be better using financial information to manage and scale their businesses for more profitable growth. They didn't start their agencies to manage financial operations. They are not finance experts. Instead, they are passionate about serving their clients, are expert practitioners, and somewhere along their career journey started their own agency.

Yet their agencies ultimately live and die by their finances. Business owners have dreams, and they hope the financial success of their businesses will enable them to realize those dreams.

Unfortunately, many agencies are struggling financially and those dreams are not being realized. Others feel like they have hit the ceiling and don't know what they need to do to drive profitable growth. Agency owners need someone to help them understand the true financial state of their business, point out the key metrics which drive the financial performance of their agencies, and help them improve their results.

I've been fortunate to be able to help many businesses become financially fit, both personally and through my company



SmartBooks. This book is for all the other business owners that I will not be able to work with. My hope is that you can take the concepts in this book and apply them in your agencies. Or if you are a bookkeeper or accountant in an agency or an external advisor to an agency, that you can help the owner(s) and management team better understand and manage the agency's finances.

I've managed the finances of my own businesses and helped clients with theirs. I have learned what works and what does not work. Unfortunately finances are not working for far too many businesses. I believe business owners deserve a better solution.

I have the benefit of not being a traditional CPA. I'm a fellow business owner and a CFO by background, having founded or co-founded 8+ businesses so far in my career. I care most about what works to manage and grow businesses. The Financial Operating System® described in this book is the result of over 20 years of observation and development. The Financial Operating System® is a proven process for obtaining better financial results for your business. It works.

This book is intended as a do-it-yourself guide. If you would like assistance implementing The Financial Operating System®, contact me:

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# Chapter 1

## Step 1: IDENTIFY YOUR WHY

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I would love to jump right into the details of how to financially manage a business, but first we must establish some context for your business. This first step in The Financial Operating System® establishes your WHY for owning your business.

Ask yourself these questions:

- ☑ Why are you in business?
- ☑ What do you want to accomplish financially with your business?
- ☑ How committed are you to accomplishing these things?
- ☑ What is your business model?

Maybe you started your agency when you got laid off or fired and couldn't find another good job right away. You got your first couple of clients, and your agency grew from there.

Maybe you enjoy marketing and want to earn more money running your own agency rather than working as an employee for someone else.

## IDENTIFY YOUR WHY

Perhaps you started consulting at night and on weekends, additional clients came to you, you quit your day job, and you ended up running a business.

Maybe you chafe under the constraints of being an employee with a boss and want the freedom and control of running your own business.

Perhaps you saw a market opportunity and strategically founded your agency to capitalize on that opportunity and create equity value for yourself.

Maybe you are super passionate about serving a particular segment in the market. That passion started you down the path of building a business, and now you need your business to become more financially successful.

If you've recently launched your agency, you may be trying primarily to just bring in enough business to pay your bills and think you'll get around to defining a specific business model and strategy later.

If you've been in business a while and are like many business owners, you may not have asked yourself these questions in quite some time. Your answers may naturally evolve over time. Maybe now you aren't sure you know the real answers. Why you started the agency may well be different than why you are running your own business now.

Hopefully you still really enjoy the work your agency is doing, you like your people and your clients, and you just want to improve profitability.

## IDENTIFY YOUR WHY

For some owners, their initial passion has waned over the years, it feels more like a job now, and they need it to be more lucrative to keep them motivated and willing to deal with the risks and stresses of business ownership. Or you might feel like you are unemployable at this point in your career, that no other agency would hire you now after you've grown accustomed to being your own boss for so long. You might feel like you have no choice but to make your agency more successful to earn the income you need and want in order to support your family's living expenses and retirement. The Financial Operating System® can certainly help in these situations, though I encourage you to find a way to reignite your passion for the business as that is what will give you the energy to make the most of your opportunity.

Even when things are stressful and you may feel a little pessimistic or beaten down, remember that your agency is an asset you own and a great opportunity to build the life you want for yourself.

A few specific examples of why you are in business could include:

- I got laid off and couldn't find another job so I launched my own agency last year and am trying to earn more income than if I got a job working for someone else again
- I am passionate about animals and want to serve 100 veterinary clinics as clients and be the #1 agency serving veterinarians in my state

## IDENTIFY YOUR WHY

- I enjoy marketing and want the freedom to set my own schedule and policies and make as much money as I can which I know is more than I would make working for someone else
- I started this agency 20 years ago and now I just need to run it for another 6 years with reasonable profit margins until I have saved enough to retire. It would be nice if I could find someone to buy it.
- I see an opportunity to build an agency that combines lead generation with sales qualification and appointment setting in the HVAC industry as there are not many other agencies doing that and HVAC companies struggle with managing the top of their sales funnel

This book is focused on getting what you want financially from your business. At the same time, you need to consider how you want your agency to feel and function operationally: the kinds of clients you support, the kinds of services you provide, and your agency's culture. Finance and operations are intertwined and feed back on each other.

In order to apply The Financial Operating System<sup>®</sup>, you must know at least in broad terms what you are trying to accomplish with your business. Until you know where you want to go, you have nothing to manage toward. Sure you can go through the motions and make reasonable decisions, but you don't know if those decisions align with your goals. And if you aren't clear on your goals, the people in your business definitely can't know what they should be helping the agency achieve.

## IDENTIFY YOUR WHY

For some agency owners, their goal is to grow a much larger business and worry about optimizing profitability later after achieving more scale. For others, it is to maximize profitability and cash flow at their current size and avoid stresses and risks associated with growth. Others may be reinventing their agencies and trying to pivot and drive growth in a new client segment or with a new service offering. Some may actually be unhappy with their current size and administrative load, wishing they could get back to working directly with the kinds of clients they want to, at a smaller size and with fewer headaches.

Why you are in business naturally leads into determining the financial objectives that you are trying to achieve through owning your agency.

A few specific examples of financial objectives of agency owners could include:

- Provide an annual take-home, after-tax cash income to myself of \$250,000 next year to meet living expenses and start paying college bills for my daughter
- Build an agency that could be sold for \$10 million within 8 years so I can travel the world and pursue charitable interests before I get too old
- Pay off all debt and build a cash reserve of two times monthly operating expenses by 24 months from now so I won't have to personally guarantee any debt ever again nor spend time micromanaging cash flow

## IDENTIFY YOUR WHY

- Maintain my current income while cutting back to working 20 hours per week to spend more time with family and on other interests
- Grow the agency into \$6 million of annualized revenue with a 15% profit margin 3 years from now so I can meet the financial aspirations of me and my family

The answers to these questions are often expressed in a combination of vision statements or mission statements and long term goals. There are various systems out there that can help companies answer these questions and communicate them internally to employees. The Entrepreneurial Operating System (EOS) and Scaling Up are two popular systems. Whether you use one of these systems or go it on your own, you must have a concept of your longer term goals beyond this quarter, this year and even the next couple of years. You need something like a 10-year Vision or a BHAG (Big Hairy Audacious Goal) or a Winning Aspiration to drive toward.

These aspirational statements need to be grounded in some degree of reality. I've known business owners with stated long term goals that imply 25%+ annual growth, yet they have been growing 5% per year for the last decade. Or they are looking for 20% profit margins when they have been breaking even in recent years. These kinds of radical transformations do happen, though they take a lot of work and a change of mindset. Usually in these cases either the owner previously has not really committed to doing what it would take and making the hard decisions to achieve that kind of goal, has not known how to go about achieving such a big performance

## IDENTIFY YOUR WHY

improvement, or has not had the business model or execution ability to achieve that kind of goal.

There is nothing wrong with a stable, profitable, slow growing agency. Many business owners struggling with volatile, cash flow-challenged businesses would love to have such a stable business.

If you want to maintain a steady, profitable, cash flow positive business which pays a salary and steady dividends to ownership, that may sound like a less ambitious objective than doubling your business in 3 years. However, that is much harder to do than it sounds and is beyond what many businesses ever achieve. The Financial Operating System® will help you achieve that.

If you strive to build a much larger agency, you will encounter conflicts between growing revenue and maintaining healthy profit margins. Although some agencies have figured out a business model that allows for high profit margins and high revenue growth at the same time, that is rare. There is nothing wrong with pursuing high growth at the expense of lower current profit. This is where big money can be made as you are effectively being your own venture capitalist, betting on a big return on your investment of time and money.

At the same time, there are risks associated with high growth at the expense of lower current profits. Among those risks is negative cash flow and running out of cash. The Financial Operating System® will help you set and track appropriate



## IDENTIFY YOUR WHY

metrics to balance growth with profitability and cash flow to maintain sufficient cash while you grow.

Owners of younger agencies may want to map out a roadmap of higher growth for the next few years to achieve a target size, and then shift into more of a stable, slower-growing, more profitable lifestyle business after that.

One of the beauties of The Financial Operating System® is that it provides a permanent structure with which to manage agency financial operations, while your specific metrics and targets can change over time.

You need to take the time to get clarity on these questions. These questions define your Lighthouse, True North, Goal Line, or whatever analogy you might choose. In order to get what you want from your agency, you must know what you want. That sounds obvious, but I've known many business owners who could not answer these questions with any real degree of confidence.

This is gut check time. Once you determine your long term goal defined in a 5-to-10 year timeframe, you must produce the weekly, monthly, quarterly, and annual results required to achieve that goal.

If you can't see how you can produce those results, then you must do one or both of these two things:

1. Change your goal to something that is aligned with what you really want to do and what you can achieve using your available resources; or

## IDENTIFY YOUR WHY

2. Change your business culture and team to one that is committed and capable of achieving your goals.

Only after I understand a business's goals and its current business model can I help a client install The Financial Operating System®.

### **Business Models**

Speaking of a business model, what does that mean? A business model is where strategy and operations come together. You answer questions such as:

- Do you have recurring revenue or do you sell a series of projects and need to replace your revenue every quarter?
- Do you have repeat business from a set of clients or one-off sales to different clients?
- Who, specifically, is your target client profile?
- Do you sell a high volume of low margin services, or sell a small number of large, high margin projects?
- Are you trying to deliver a somewhat commoditized service that many other agencies also deliver, or are you delivering a niche service to a small segment in the market priced at a premium that is differentiated from what your competitors offer?

The business model represents how you will go about achieving your long term goals. Thinking through the questions posed in this chapter might also get you thinking more deeply about your strategy. If so, you will find helpful the principles in the book *Playing to Win*, written by A.G.

## IDENTIFY YOUR WHY

Lafley, and its Strategy Cascade tool. You can download a copy of that tool from [TheFinancialOS.com](https://TheFinancialOS.com).

If you're not 100% confident in what your business model should be, don't worry too much now. The Financial Operating System® is iterative, and you can revise your business model and your goals over time as you gain new insight.

After you have done some soul searching and have improved clarity on your WHY, you can proceed to [Step #2](#) of The Financial Operating System®.

# Bibliography

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I hope you have enjoyed this book or at least taken away some ideas to implement at your agency.

If you would like to explore certain topics more deeply, here is a list of books referenced in this book:

- Guide to Management Accounting Cash Conversion Cycle by Shigeaki Takai
- High Output Management by Andy Grove
- Measure What Matters by John Doerr
- Playing to Win by A.G. Lafley
- Scaling Up by Verne Harnish
- Simple Numbers 2.0 by Greg Crabtree
- Traction by Gino Wickman
- Who by Geoff Smart

# About The Author

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## Calvin Wilder

Cal's passion is empowering small business owners to run healthy businesses and to become more financially fit. As a CFO, he partners with businesses to assess and manage the financial metrics which drive equity value for business owners. As an investor, he analyzes financial metrics to drive investment decisions.

Not a traditional CPA, Cal brings a refreshing mindset to small business accounting and finance. Having worked with hundreds of small businesses, Cal is an expert at operationalizing financial management, with a knack for effectively balancing accounting needs, reporting priorities, operational requirements, and budget constraints.

An entrepreneur himself, Cal has founded or co-founded 8 companies so far in his career including one that was acquired by Staples in 2006. Recruited to serve on various corporate Boards, he has advised Intacct (acquired by Sage for \$850M), MineralTree (raised >\$70M in VC funding and acquired by Global Payments for \$500M), and G2 Technology Group (bootstrapped, acquired by private equity firm Great Hill Partners and subsequently CDW).

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# THE FINANCIAL OPERATING SYSTEM<sup>®</sup>

- 01** Identify Your WHY
- 02** Assess Current Finances
- 03** Define Metrics and Targets
- 04** Upgrade Accounting Operations
- 05** Manage the Business
- 06** Learn, Iterate and Improve

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