

Proven Processes Developed and Validated in 20+ Years of Real-World Experience Supporting Hundreds of Small Businesses. Sequel to best-seller version 1.0.



THE FINANCIAL OPERATING SYSTEM® Version 2.0



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

BY CALVIN WILDER

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The Financial Operating System®

This book is dedicated to business owners

Too many business 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

Other business owners 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 business 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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Chapter 1

Step 1: IDENTIFY YOUR WHY

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 business 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 business grew from there.

Maybe you enjoy making or servicing widgets and want to earn more money running your own business 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 business 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 business, 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 business may well be different than why you are running your own business now.

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

Identify Your Why

For some business 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 business 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 business 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 business 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 business 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 customers and be the #1 business serving veterinarians in my state

Identify Your Why

- I enjoy consulting with multiple clients 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 business 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 a software that manages home services businesses as many struggle with scaling their operations.

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 business to feel and function operationally: the kinds of customers you support, the kinds of goods and services you provide, and your business's culture. Finance and operations are intertwined and feed back on each other.

In order to apply The Financial Operating System[®], 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 business achieve.

Identify Your Why

For some business 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 businesses and trying to pivot and drive growth in a new customer 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 customers 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 business.

A few specific examples of financial objectives of business 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 a business 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 business 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

Identify Your Why

big performance 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 business. 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 business, you will encounter conflicts between growing revenue and maintaining healthy profit margins. Although some businesses 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 businesses 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 business 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 business, 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 need to replace your revenue every month?
- Do you have repeat business from a set of customers or one-off sales to different customers?
- Who, specifically, is your target customer profile?
- Do you sell a high volume of low margin goods and services, or sell a small number of large, high margin items?
- Are you trying to deliver a somewhat commoditized service that many other businesses 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.

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®.

About The Author

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®

- 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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