

THE TRADIE SHOW

The Tradies Guide To
Understanding Your
Numbers



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EPISODE 4

The Tradies Guide to Understanding Your Numbers

You must understand the numbers in your trade business for it to be healthy and for you to make wise business decisions.

Focus on the FACTS not the fluff

Many trade business owners are making decisions based on ‘fluff’ or non-substantial reasons. Business decisions, especially big ones such as buying an expensive piece of equipment, or hiring a new staff member need to be more calculated than that.

You cannot and will not achieve **growth** in your business if you do not know what your numbers are.

MUST HAVE: A Great Accountant

Having a good accountant is vital to the prosperity of your business. An accountant will assist you with all your numbers. It is important to find the right accountant (even if they are slightly more costly) otherwise it may be more costly for you in the future of your business.

What to expect from a good accountant?

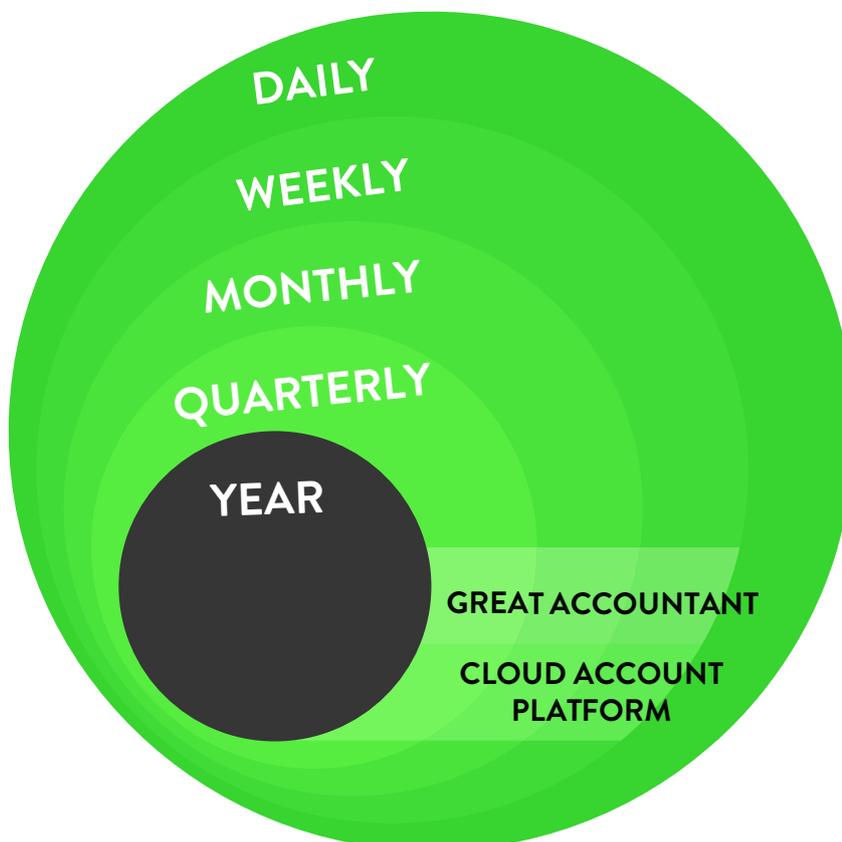
- Find accountant that specialises in your particular trade service industry e.g. plumbing, electrical, landscaping.
- Expect them to stay in contact with you and be easily contactable by you – that could be a phone call every two weeks and a much longer meeting every couple of months.
- You need an accountant that does more than just give you a report – it is important that they will spend time talking to you and asking vital business questions to make you think of things you hadn’t previously based on the numbers in the reports they have developed.
- They should be looking at your figures regularly and will call you if they see something that is wrong or unusual
- You need to make sure that your accountant is using the same platform as you – a Cloud Accounting Software System is ideal as you and your accountant can look at your reporting, at the same or different times, from whenever you are. Cloud Accounting Platforms that you could use are intuit QuickBooks, Xero, Saasu, MYOB LiveAccounts.

'The Financial Focuser'

'The Financial Focuser' is a simple table that will help you understand what numbers you need to record and measure in your trade business, as well as how often you need to analyse them.

You need to analyse numbers based on the past, present and future of your business and this is describe in 'The Financial Focuser'.

TIME	PAST	PRESENT	FUTURE
REPORT	PROFIT & LOSS	BREAK-EVEN	FORWARD
	BALANCE SHEET	DASHBOARD	FORECAST
		GROSS PROFIT	
FREQUENCY	YEARLY	WEEKLY	YEARLY
	QUARTERLY	DAILY	QUARTERLY
	MONTHLY		MONTHLY



Past

It is vital to understand the past of your business in order to make calculated and realistic business decisions in the future.

The two ways to look at the past figures of your business are with your Profit and Loss Statement (P&L) and your Balance Sheet.

P&L

Go through your P&L with your accountant or by yourself line-by-line! It is not enough to simply glance over the figures. When you go through your P&L line-by-line you will get a more accurate picture of where you are wasting money and where you could start saving money.

Split your labour and materials – what you have purchased and what you have sold. This is because you need to learn how much materials you have used, what has gone missing, what has been wasted etc. So you can understand if you are making money based on this.

In reality, if you don't do this it is the equivalent of grabbing money out of your wallet and throwing it on the ground.

The P&L will also help you understand patterns in your business where there are peaks and troughs and what you can do to reduce the effects of these.

Balance Sheet

Additional information that you need to know about the past which your P&L will not tell you such as holiday pay or money you are taking out of the business for personal use (which you will still be paying tax on).

Look at this with your accountant to holistically see whether you have too much outstanding debt or not.

Frequency

Needs to be reviewed monthly, quarterly and yearly.

Present

Break-even

It is highly important to talk to your accountant and calculate your Break-even. This helps you understand for your business right now.

Break-even will tell you how much money you need to make to reach a point where you have covered all your base costs, and then knowing that anything you make over that is a profit. You can divide your Break-even figure into smaller goals, such as, how much you will need to break even on a daily, weekly

or monthly basis. Apply daily goals to your ‘dashboard’ (see below) so that everyday you can see what monetary figure you are aiming for to break even.

Dashboard

A dashboard contains indicators of how your business is tracking. You can apply your daily break even to your dashboard. When you are not hitting the break even targets you know it is time to revise what you are doing and see how you can fix this. When you do hit your break even you should be thinking of ways that you can amplify what you have been doing.

Your dashboard can contain other figures to track. Decide with your accountant which ones would be beneficial to look at for your particular trade business. Examples are:

- Business turnover in the week
- How much Gross Profits (GPs) your tradesmen have made
- How much accounts or debt you have
- How much accounts receivable you might have
- How much account payables you might own
- How much your bank has in it
- How much tax you have coming out of your bank account

TIP: It is a great idea to set up a separate ‘holding’ bank account which you transfer money into from your business account to get it ready to pay any taxes and GST you might have. That way when you look at your bank account you know the remaining money is truly yours.

TIP: Give your tradesmen individual GPs and provide incentives for them to reach these targets (without giving them the specifics of your business’s figures). To work out your GPs – calculate daily how much your tradesmen wages are per hour, what overheads you have, travel time where you will not be making money, holiday leave, and sick leave for a single day. Then, add them to your costs so you know if you have made money or not.

Frequency

The present state of your business needs to be reviewed daily and weekly. Some trade service industries will find it harder to report this frequently e.g. a builder may find it better to review

Future

You need to look at the future of your business so you have a goal of where you want to go and plan out the steps you need to take to get there.

Forward Forecasting

Forward Forecasting is critical and the only way to make big business decisions.

It involves looking back on the past of your business and using your business plan to forecast decisions for the future.

You might use forward forecasting when;

- Looking to add new staff
- Buying an expensive piece of equipment
- Tracking when quiet months might be based on previous years and planning for them.

Frequency

Do the plan on a yearly basis (broken down by month), review it quarterly, but the accountant also reviews it every month and will tell you whether or not you are on track.

What's next?

You're the one wearing the heavy load of responsibility — and suffering major stress.

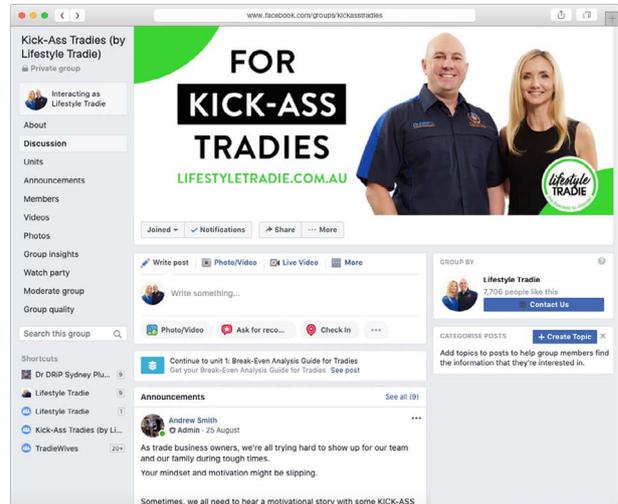
Ready to change it?



Join our Facebook group,
Kick-Ass Tradies

Where you can gain access to trade-specific tips and resources, PLUS join the conversation with a community of like-minded tradies.

[facebook.com/groups/kickasstradies](https://www.facebook.com/groups/kickasstradies)



Lifestyle Tradie Live



Join us at our live event,
Lifestyle Tradie Live

These 1-day live events are jam-packed with trade-specific knowledge that YOU need to know in order to build a strong, successful trade business.



Jump on a Strategy
Session with Andy

Register now for a 15-minute call with Andy now to smash out what you need to do right now, to provide you with clarity and direction in your trade business.

Head here to book it now

<https://www.lifestyletradie.com.au/strategy-session/>

