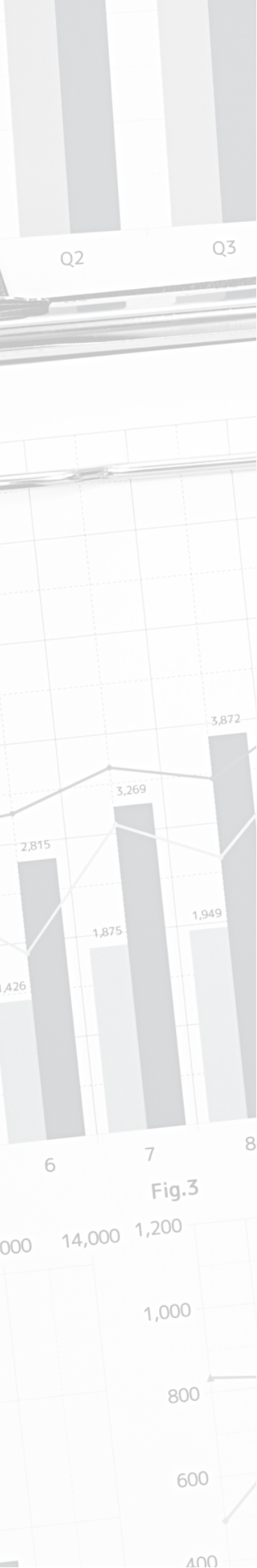


5 BIG PROFIT DRAINING MISTAKES SMALL BUSINESSES MAKE



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Introduction

There are many reasons to love running your own business: more freedom, a better work-life balance and total creative control. However, there's no denying that money matters an awful lot, too.

As a business owner, there's theoretically no limit to how much you can earn. Gone are the days of asking your boss for a pay rise; if you want extra income, it's up to you to get out there and earn it. The flip side to this is that there are no guarantees, either, and the sad truth is that if practices such as cash flow and credit control are not made an integral part of business, many small business owners would be financially better off working for someone else.

Research by the Small Business Administration (SBA) found that around 20% of small businesses fail within the first year, and around half succumb to business failure within five years, stating a lack of funds as the reason this is the biggest threat to an organisation, so careful money management is an absolute MUST.

However don't despair and go running back to the day job. If you're not making as much money as you'd like to, it happens, but it means it's time to take a look at your business and root out the mistakes that are eating into your profits.

It's possible to enjoy all the benefits of running a business and make much more than you ever could working for somebody else. Entrepreneurship is a risky path, but the rewards are worth it.

In this book, we're going to take you through the common mistakes that we see our clients make time and time again. It's essential that you work hard to maximise your profits right from the very beginning of your business to ensure that your company will not only survive, but thrive, in years to come.



Expectation vs Reality

When you started your own business, you likely harboured dreams of flexible hours, more family time and dreamy trips to the Bahamas, haven't we all! The reality, however?

- You're working harder than ever, but the profits aren't following.
- You're stressed out and wondering whether you made the right choice.
- You're missing the 9-5, when you could switch off at the end of the day.
- Financial problems keep cropping up and you lack the confidence to invest in growth.

If this is you, then you need to work smarter, not harder. You need to look at and adjust your current practices and focus on maximising your profit margins. It's likely that you, like so many others before you, are making some pretty common errors because you just don't know any better. It's time to work out what you're doing wrong and put yourself back on the path towards success.

Here at Turpin Accounting, we have 12 years in business of experience helping our customers maximise their profits. The following mistakes are ones that we've seen our clients make time and time again.

The good news is that rectifying these errors isn't rocket science. By following simple steps you can start running that lifestyle business you've always dreamed of and put the 9-5 nostalgia to bed for good.



#1 Poor Cash Flow Management

Cash flow is the lifeblood to a business and failing to focus on this often proves fatal. Your business can't function for long without cash and poor cash flow management will quickly eat into your hard-earned profits.

First of all, you need to understand the difference between cash flow and net profit. Cash flow is the money going in and out of your organisation. Cash comes in from customer and client payments and goes out in the form of expenses, such as staffing costs, materials, utilities and rent.

Positive cash flow means that more money is coming in than going out meaning that you'll have plenty to cover your expenses and keep your business afloat.

Negative cash flow means you're paying out more than you're receiving, and thus your business' bank balance is declining. It's okay to have a negative cash flow in the short term if you have sufficient reserves - in fact, it's to be expected as you scale-up and invest in growth. However, if this goes on for too long you'll run out of funds and may have to cease operation, an option we most definitely want to avoid.

It's possible for a business to be profitable but lack adequate cash flow, especially if your products or services go through a long sales chain. You may have to pay staff and suppliers long before your customers pay you and consequently you might not have enough available funds to continue operating. This can lead to a loss in revenue or may cause you to accumulate debt.

As well as permitting you to continue operation and protecting you against debt, a positive cash flow allows you to grow and scale your business in the future. If you have very large cash reserves, it could be time to re-invest.



The first step to improving your cash flow management is to keep careful financial records. Ensure that your personal and business bank accounts are completely separate, and set aside time each day or week to update your books and ensure that your records are accurate.

You should use this data to regularly prepare cash flow statements so that you can clearly see how much money is entering and leaving your bank accounts. This will then allow you to create cash flow projections to help you manage your money well in the future, too – particularly during periods of growth. This will also help you to prepare an adequate safety net for any unforeseen costs that may crop up.

Another simple way to improve your cash flow management is to stay on top of your invoices and ensure that your clients pay you on time. When you sign up a new client, be sure to map out the invoicing terms straight away to ensure no delays later on. Make it a priority to send invoices in a timely manner and keep track of which deadlines are approaching so that you can send a polite reminder, nowadays this is all easily monitored and completed through cloud software. Something you will need to invest in not only as MTD continues to expand through the business world but to eliminate stress of the above procedure.

If you've been neglecting your cash flow, it's time to make some changes. Good cash flow management goes a long way in protecting the financial health of your business against debt, circumstantial changes and unforeseen costs, whilst enabling you to make smart and well-timed investments to drive growth.

Software packages (QuickBooks/Xero/FreeAgent)
Cash flow Management

From £5 pm
From £35+VAT pm

Turpin Accounting Services offers a free simple cash flow tool if you want to request this please send an email to bel@turpinaccounting.co.uk (no sign up necessary)



#2 Focusing on Turnover, Not Profit

Many small business owners confuse turnover and profit, but it's vital to understand the clear differences between the two. Otherwise, you may find yourself in a whole host of financial trouble.

Turnover is the money **you invoice**. It's the amount you generate from sales over a specified period. Turnover is one metric that can be used to measure the health and performance of your business, but it's **not the same** as profit.

Profit is the money **you make**, i.e. your turnover minus your costs. Let's say you invoice £100,000 per year, but spend £30,000 – your total profit is £70,000. You then must take tax into account to understand your NOPAT (net operating profit after tax) to see how much financial gain your business will actually make. If you pay another £10,000 in taxes, your business has gained £60,000, not £100,000.

It's crucial that you understand this in order to maximise your profits. Of course, increasing your turnover can boost your profit dramatically but you shouldn't automatically assume that this is the case. For example, increasing your turnover by £10,000 sounds great, but if you spend £20,000 in order to do so then your profit margin has actually decreased.

Confusing turnover and profit encourages overspending because it leads you to think you're making more money than you really are. This then cuts into your profits and can land you in debts, which will halt your growth and further eat away at your margins.

Understanding the difference between turnover and profit gives you a clear picture of how much money you're actually making and how much you can afford to invest. Management accounts are a great tool to use to ensure you are understanding and analysing the above.



#3 Hiring a Cheap Accountant

When you're looking to maximise your profits, cost-based hiring often seems like a good idea. However, it can be a short-sighted approach that can actually drain your profits and land your business in financial trouble.

Many business owners assume that all accountants/bookkeepers offer the same service, but this could not be further from the truth. When hiring an accountant/bookkeeper, you shouldn't focus on how much money it will cost in the short term but how much money they can save and generate for you in the future.

There are many cheap firms out there, but you really do pay for what you get. Many businesses fail to realise that anyone can call themselves an accountant/bookkeeper, without any qualifications or experience whatsoever.

Staff should be qualified or working to obtain qualifications in an accountancy practice and most have had to study to pass exams and gain a wealth of practical experience whilst doing so. Therefore, they charge significantly more than cowboys who have no knowledge or expertise to speak of. Ask yourself: do you really want the latter handling your accounts?

When hiring something to be mindful of is are they regulated by external professional bodies and remain up to date with the latest practices and guidelines? All professionals will have this and will continually be taking part in what the accounting professionals call CPD to keep up to date with what is happening in the accounts world.

Cheap accountants/bookkeepers are hired based on cost rather than quality of service. Therefore, a cheap one will most likely do the bare minimum for your firm. This puts you at risk of mistakes on your tax return which can result in potentially crippling fines. It also means you're likely to miss out lucrative tax breaks and incentives that a qualified and experienced accountant would be able to spot.



A quality accountant/bookkeeper will go over your accounts with a fine-toothed comb and try to save you as much money as possible. They can offer valuable industry insights and help you with forecasting, protecting and accelerating your growth. Additionally, they can also advise you on lucrative financing opportunities and help you to present the best possible case to potential investors.

In short, the services of a quality accountant/bookkeeper can totally transform the financial health of your business. In fact, they'll help you to fix financial problems you didn't even know you had. Quality accountants/bookkeepers aren't hired based on cost, so it's in their interest to boost your profits as much as they possibly can.

This is more than a compliance cost; it's an investment in your business that will dramatically boost your profits by saving and generating revenue.

In-house Bookkeeping
General Bookkeeping

From £140+VAT pm
From £60+VAT pm



#4 Neglecting Marketing

If you want healthier profits and fewer working hours - and let's face it, who doesn't? - you need to focus on marketing.

Marketing can be expensive but when done correctly it generates a huge ROI. If you want to attract high value clients, you need to market yourself as the obvious solution to all of their problems. You need to become the go-to company within your chosen niche.

There's no denying that word of mouth marketing is the most valuable, but it's simply not always enough. For one thing, you have no control over which clients referrals bring in; the chances are, they may not be a great fit for you. Referrals generally happen during busy periods and this marketing method will leave you high and dry during quieter times of year.

In order to achieve solid, steady growth you need to consistently focus on your marketing efforts to ensure a stable stream of income all year round. This will make it far easier to plan for the future, manage your cash flow and understand your profit margins.

When your profits aren't what you want them to be, it's tempting to cut back on marketing costs in order to boost your margins. However, this can further shrink your earnings in most cases. Instead, take a careful look at your current marketing efforts and evaluate which practices generate the largest ROI to fine-tune your approach.

Is it time consuming? Is it not targeting the correct group for your business?

Remember that marketing is a long-term game. When you scale back your marketing campaigns, you won't see the effects immediately but you'll certainly feel them six months down the line when you're wondering where your customers have disappeared off to.



Similarly, when you increase your efforts it may take a few months to see results, but you'll reap the rewards as you amass a high-value client base and watch your profits grow.

Finally, don't forget about the value of marketing to existing customers, either. Research by Small Business Trends found that on average 65% of sales come from existing customers, whilst Neil Patel found that existing customers spend an average of 31% more.

Marketing isn't just about customer acquisition, so concentrate some of your efforts on up-selling and cross-selling to your existing base. Devising loyalty programs and offering exclusive discounts makes your current customers feel valued and appreciated, and thus encourages them to keep on spending.

Turpin Accounting Services offers a £25 voucher referral system where if you refer someone to us and we then take them on board we'll give you a £25 voucher for either Amazon or a local store, you don't even need to be a client of ours to be eligible for the scheme either.

Social media creation and scheduling
Mailchimp campaign creation and deliverance

From £50+VAT pm
From £70 +VAT per campaign

(Access to your own software accounts will be needed to complete the above)



#5 Wasting Time by Failing to Outsource

One of the most common mistakes small business owners make is undervaluing their time. There are £10 tasks and £10,000 tasks. As a business owner, which one do you think is more worthy of your attention?

Many new entrepreneurs are reluctant to outsource and try to handle every aspect of their business by themselves, but this can be a very expensive mistake. You need to recognise the value of your time and invest it just as carefully as you would your money. If you focus all your time on £10 admin tasks and neglect the £10,000 tasks, you're effectively losing £9,990 every time. Suddenly, outsourcing doesn't seem so expensive does it?

New business owners often put off handling the "business" side of things and would rather simply serve clients than focus on growth. However, if you do this your business will never grow the way you want it to - at best, it will continue to stand still. In this instance, you'd be better off working for somebody else. You need to recognise that you're the owner, not an employee and thus you need to focus on growth and client generation not always the day to day behind the scenes tasks.

As the business owner, you need to outsource compliance and focus on the tasks that require your particular expertise. Build a team that you trust so that you don't waste valuable time micromanaging them. There are many tasks within your business that somebody else could do, so use your time to do the things that only you can.

On top of this, you need to understand that there are certain tasks that you just aren't well-equipped to do. A qualified accountant/bookkeeper, for example, will be able to file your tax returns much more efficiently and quickly than you can, as well as take advantage of breaks and incentives to save you money.



If you try to do this alone, you're likely to waste time and make a multitude of mistakes; your time can be put to far better use elsewhere. No successful business is a one man show. They require an entire team to build, nurture and grow.

The sooner you learn to value your time and outsource accordingly, the better. Invest your time wisely and you'll see your profits surge. Bury yourself in admin, and the opposite will be true.

Monthly Payroll Collation & Pension Upload
Credit Control
VAT Collation & Submission

From £65 +VAT pm
From £35 +VAT pm
From £75 +VAT per quarter



The Next Step

If you're making any of the above mistakes, then your profits certainly aren't what they could be. In order to maximise your profits you need to:

- Improve your cash flow management
- Focus on profit instead of turnover
- Hire a quality accountant
- Be consistent with your marketing
- Assign a value to your tasks and outsource accordingly

The mistakes we've identified are fixable, but you can't do it all by yourself. It's time to hire a quality bookkeeper who can crunch the numbers, take care of your cash flow and offer expertise.

Here at Turpin Accounting, we provide transformational services to maximise your profits and propel you towards success. We're not just here to tick boxes and balance the books; we help you to get the most out of your money and accelerate your growth through careful account management.

If you're at your wits' end when it comes to your profits, we're the fresh pair of eyes that you need. If you're looking to take your business from zero to hero, you've got to stop letting money mistakes drag you down. Let us help you put on your cape and fly.

To find out more about our services, get in touch at www.turpinaccounting.com and book a FREE call today.



Team

Here at Turpin Accounting, we're passionate about helping your business to grow and thrive. We specialise in accounting services for startups, sole traders and limited companies, so if this is you, then we'd love to hear from you.

Our services are both personal and professional. We're always willing to go the extra mile to serve our valued clients because your success is our success, too.

We've been in business since 2011 and although things have certainly changed since then, our commitment to our clients has remained steadfast.



Liz
Director



Bel
Business Development



Ian
In-House Bookkeeper



Hannah
Admin Apprentice



Ben
Bookkeeper



Contact Information

If you'd like to find out more about our accounting services, head to our website, book a free discovery call or send us an email. Our office hours are 9am-5pm Monday to Friday and we aim to reply to all enquiries within 24 hours.



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