

## FINANCIAL SUCCESS IN THE NEW YEAR

By Dave Luehr | January 8, 2020

Most of you have heard the quote, “If you fail to plan, you plan to fail.” Most of us, however, have never learned how to plan. At least when it comes to strategic and financial planning for our businesses. Many business owners are, unfortunately, under the assumption that they would need a Certified Public Accountant to perform financial feats such as preparing a budget or financial proforma for your business. I am here to tell you that it’s time to get over your financial fears and learn how to do it yourself!

It would be irresponsible of me to suggest that you don’t need CPA’s or financial experts in your life and business. But I believe strongly that business owners need to acquire some basic skills themselves that extend beyond the ability to read a checkbook balance. Every super-successful operator I have ever met, knows how to...

- A. Read a basic financial statement.
- B. Create a simple annual budget or financial forecast.

Since founding Elite Body Shop Solutions, my team and I have discovered a massive financial knowledge deficit in hundreds of shops around the world. These business owners, while quite skilled on the technical aspects of their businesses, are poorly equipped to manage the very lifeblood of their business... the money!

To make matters even worse, they abdicate financial decisions to their CPA’s who, in many cases, have no idea how our industry operates. I know several excellent CPA’s; however, most of the ones my team and I have worked with are not properly equipped to advise on anything beyond tax planning for your business.

Ladies and gentlemen, if this message resonates with you, it’s time to get financially educated! You *CAN* do this!

### So, where do you start?

Having an industry standardized chart of accounts is very important and getting this set-up is commonly a point of frustration for many shop owners. If you want good financial information to help guide your business, you must first make sure your systems are set-up correctly. You need to be able to view financial statements every month, not just during tax time!

Getting your body shop management system and your accounting system properly synced is crucial. This step can be a little tricky because quite often your management system provider doesn’t understand accounting, and your accounting system provider doesn’t know how to operate your body shop management system. This makes finding someone that can help you set it all up challenging. As a result of this dysfunctional systems dynamic, far too many shops have a lot of garbage data flowing back and forth between systems. Therefore, most shops cannot produce accurate financial statements.

If you need assistance setting up your financial systems, we have a collision financial expert who can help. Email us at [info@elitebodyshopsolutions.com](mailto:info@elitebodyshopsolutions.com)

## Understanding Financial Statements

There are three primary financial statements that you need to familiarize yourself with:

### 1. Balance Sheet

The balance sheet is a report that shows the company's assets, liabilities, and equity. In short, this document shows you what your company is worth on paper.

### 2. The Profit & Loss (aka. Income Statement or Operating Statement)

The P&L is a report showing your shop's revenue, cost of goods sold (direct costs), expenses, and the shop's net profit. This report will show you if your business is operating profitably, but doesn't always explain where all the cash is going.

### 3. The Cash Flow Statement

This report is a little different than the P&L because it tells you more specifically the inflows and the outflows of your cash, hence the name "cashflow." You may ask why you would need a P&L when you could simply just look at a Cashflow statement? Both are important, but only the P&L shows profitability.

It is important to review all statements to get a clear picture of your business. I know a lot of businesses that are profitable on their P&L, but struggle to have any cash. Knowing how to budget your business depends on understanding how things like accounts receivable, inventory, work in process, debt, and depreciation affect your business's cashflow.

Once you have a reporting system that is stable and a solid chart of accounts, then you can monitor these crucial KPI's and make sound business decisions as a result. Like I said earlier... You *CAN* do this!

To learn how to read financial statements, there are many learning resources available online including our friends at the Automotive Management Institute (AMi). Visit [www.amionline.org](http://www.amionline.org) and search for "Understanding Financial Statements."

## Financial Budgeting

I have heard a lot of different terms for preparing a financial budget including terms like proforma, financial projections, etc. Some of these terms do carry a slightly different meaning depending on who you ask, but for the purpose of this article, we are going to call it simply financial budgeting.

The process of creating a financial budget successfully is predicated on you having at least some basic knowledge of financial statements. That is why I took the time to explain it to you in the previous section.

To take the mystery out of this, a budget in its simplest form is simply a Profit & Loss statement that is extended out into the future (usually a year) stating what you plan on earning and then budgeting what you can spend each month to hit your goals. So really budgeting is the process of determining where you want to be in a year with your revenue, direct costs, gross profit, overhead expenses, net profit, etc.

Again, if you don't know how to find these numbers, don't sweat it; just take an online lesson at AMi, or anywhere else you can find a class and you will have this, no problem!

To prepare a budget, record the various sales, expense, and profit metrics you intend to hit for each month throughout the upcoming year. The deeper benefit of this exercise is actually thinking through the "how" you will reach these metrics and formulating not only a financial budget, but a real strategic plan for its actualization! When these plans are acted on, it is literally the stuff dreams are made of! You get to build the future you desire! How exciting is that?!

Okay... I understand that my writing about a financial budget makes it more difficult to visualize than by seeing it first-hand. No sweat, we've got you covered! The Elite team and I have built a very simple (yet effective) budgeting tool that you can use. We even recorded a short video showing how to use it! This is our gift to you because we want you to be successful. From our experience, you will not be able to reach your financial potential until you grab the financial reins of your business and ride it into the future!

[Click here to access your complimentary Elite Financial Forecasting Tool for budgeting with the instructional video.](#)

### **Summary**

One of the greatest challenges for independent collision business owners these days is that bigger competitors are getting tougher and more "business-like" in their operations and growth strategies. Since many of us started out in this industry as technicians, many shop owners approach business using a technician's mindset which focuses primarily on the repair of the vehicle. The successful shop owner of the future will certainly possess a passion for quality repairs; however, they must also be equally passionate about building a better business.

A major component of business-building is the financial part of the business and there is no good reason or excuse for ignoring it any longer. The future favors those that want to learn and at Elite Body Shop Solutions, we are absolutely dedicated to getting you the informational content you need to survive and thrive in 2020 and beyond!