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Hot Tips for Watching Your Money
Sue Thompson

Pat: Hey, this is Pat Iyer with Legal Nurse Podcast and today we're going to talk about a subject that is near and dear to everyone's heart, which is managing your money for your business. I brought on the show a woman who I met at a conference in Florida who is a whiz when it comes to looking at some of the financial issues associated with running a small business. She's a bestselling author. She's a regular magazine contributor with a monthly financial column, and she has worked in international finance for over three decades. She speaks on business and finance for multiple government organizations, colleges, and on the radio. You may indeed have even heard Sue Thompson on 96.5 FM and 600 AM. She will be launching her own podcast called "The Business of a Successful Practice."

Sue, welcome to the show. I'm glad that you could join us today.

Sue: Thank you, Pat, I'm glad to be here.

Pat: We have listeners in all different stages of their business development. Let's take us back to the moment that we decided to start our business or were thinking about starting it and we're looking at, "What are some of the things that I should consider when I'm in that early stage?" Can you give us some insight on that?

Sue: Sure. I think that it's an odd thing to think about at the beginning, but you really want to think about what the exit strategy is going to look like for the company or the business—in other words, for the sake of what are you creating the business.

And there are really two ways to set a business up, and one is to make it a cash machine. That means something that's throwing you cash that you're then going to invest and make life work on a personal basis long term. The other way is to build an asset, which is to create a whole system and structure with a team who operates eventually without you, and then you sell it as an asset at the end. And the reason that we want to think about those things up front is because they will

dictate an awful lot of the systems and structures that are best for us to put in place right from the beginning.

Pat: I know that many people who are starting their businesses are not thinking about those questions. So that's great that you brought up those points. One of the dilemmas that we experience as service businesses is that we establish strong relationships with our clients who see us as the business and can't conceive of running their law practices without our help. So, if we leave, then they say, "Nobody could possibly do what you do. I couldn't possibly connect with a new owner." What would you say to a business owner who is thinking along the lines of the cash machine piece and not even thinking about the transition?

Sue: The cash machine piece is fine, and it's a great way to control your own calendar, to control your own levels of revenue and income, and it's typically a business that's built around you and your skills and what you bring to the table for who you're serving. One of the things that's important then is that you understand from a cashflow perspective what that business is going to do for you for today and for tomorrow.

In other words, when you're thinking about your pricing and when you're thinking about how you're going to use those funds over time, you want to think about how much does it look like for you to have the kind of life that you want to create over time. When you're thinking about working with an individual, your client who adores you and loves you and can't possibly think about working with somebody else, you can set up the systems and the structures for both of you in a working relationship. But then, that baton could be passed if you chose to move onto something different or to have somebody take over your business long term. So, hopefully, that answered the question.

Pat: Yes, and I think it's a great question to think about that. New business owners don't think about at all in the beginning of what's the end game for them. The questions that absorb them are, "How do I get clients?" and "What should I charge?" and "How do I make sure that I'm getting my invoices paid?" and "What systems do I need in place?" And it goes on and on and on of that workflow piece. In your experience, just looking at the financial piece, what are some of the

issues you see that business owners struggle with aside from what we've already talked about of that decision of the cashflow machine versus building a legacy?

Sue: I think the biggest thing I see with entrepreneurs is reinvesting too much money back into their business without paying themselves. And so, for example, in the scenario of a cash machine, the whole purpose of that business is to generate cash. So, the cash must have a job. In other words, what's the money for? And the clearer you can be on what the money is for in the long run, in the long term, you're leaving a legacy in a different way, right.

Instead of leaving a legacy with your business, you're leaving a legacy with what you're building in your home life or in your contributions in other ways on top of the work that you're doing. And so, you want to be clear about "What do I need to pay myself in order to make life work on a monthly, weekly, daily basis? And then what do I need to reinvest in me and what do I need to reinvest in my company to make sure that it's sustainable long term?"

Pat: That's a crucial point that I've seen many people get involved in, of not paying themselves enough, and then they get strapped.

Sue: And then what's sad is when the day comes that they don't want to do it anymore, their options are really limited because they didn't have the thought process of what they wanted tomorrow to look like for them. And so, it must keep going in the way that it's always been going because there wasn't any planning or investing for the future.

Pat: I know my husband and I discussed this when I ran my legal nurse consulting business, and I paid myself a salary. He said, "Pat, why are you giving yourself that much money?" Now I'm getting a social security check that's paying me out at the maximum level that you can be paid, he's not complaining at this point, I've noticed.

Sue: Yep, and that's a strategy, right? It was a forethought in order to make sure that life works both today and tomorrow, so that that's the perfect way to do it.

Pat: Tell us a little bit about how we can track our income because I think that this is a weak area for many legal nurse consultants, the tracking of income and expenses. I know that there are legal nurse consultants

who don't always appreciate the difference between using a personal credit card and a business credit card, for example. Or they wonder, "Do I really have to write down my miles?" or "What do I do about the copies that I made for the attorney for the report? Can I charge him for the paper?"

I've had legal nurse consultants who were my expert witnesses want to charge me for the phone calls that they made to me. I ended up developing an agreement that said, "These *are* reimbursable expenses. These are *not* reimbursable expenses. The fact that you had to stay over in the other city and didn't have clothes to wear for the next day doesn't mean that you can charge me for your shopping time. I know you had to get them, but that's not a billable expense." Give us some insight about tracking numbers.

Sue: There are inflows and outflows, and it's black and white. What's important is if you're not tracking it, I'll guarantee you you're leaving a lot of money on the table. And the biggest way you're leaving that money on the table is by paying way too much in taxes. What's important is that initially we're tracking inflows, right, the top line. We got to make sure we can keep the lights on and pay the bills and put gas in the car and get the groceries. We want to make sure that those numbers are growing and they're growing appropriately. In other words, the money will go somewhere and if we're not planning on it, if we're not planning where the money is going to go, and we're not tracking to make sure that's where it went, it will disappear. It will fly right through our hands.

That's when a lot of clients will come to me. One or two things are happening. It's like I'm working hard, I'm making good money, but I don't know where it went. I don't have anything to show for it. Or I'm working hard, and all I'm doing is writing big checks to the government. And both of those scenarios are because of not having good tracking systems in place.

When people are first getting started, I say, "Just use an Excel spreadsheet to track the inflows and the outflows. That'll give you a little bit of a cash flow picture, and you'll pay attention to it because you're writing it down. But what it won't give you is any good solid reporting out the other side. And eventually we would want to move

from running our business from the checkbook to running our business from the numbers.

And the numbers come to us in a profit and loss statement and a balance sheet, which is something that you want to have from a piece of software that'll help you. Ninety-nine percent of my clients can use QuickBooks. It's an integrative accounting software, but it operates a little smoother for the end user. You can do it yourself if it's set up right; otherwise, you can make a mess with it. It will give you all kinds of good integrative reporting in every business. The kind of reports that you want will be tailor made for you based on the goals you have.

Pat: Is this a do-it-yourself project of setting up QuickBooks?

Sue: I don't recommend it unless you really know what you're up to and because garbage in, garbage out. Like if you've got a good footprint that somebody's established for you, and you want to learn how to manage it when it's small, that's not a bad idea. But to just try and set it up on your own, I haven't seen too much success with that with most people.

Pat: One point that I think is interesting with QuickBooks that I've discovered just a few years ago is the concept of keeping the data on the cloud so that you can work with an accountant or an agency in another part of the world or another part of the country, which never used to be the case. You know before cloud computing existed, you needed to have somebody who could walk into your business or you could walk into that person's business with your data available for the types of reports that you're talking about. Has that also changed your business in terms of how you work with clients?

Sue: It has significantly. So, we work with clients across the United States. We also have some in Canada and we even do some consulting internationally. Numbers are numbers, which is fabulous. The whole online banking process as well as cloud accounting allows us to work with clients just about anywhere because the information is easy to put your fingers on. And then we can put that information into the accounting so that the client still has access to it, can see it when they need it. It allows a client to connect with that accounting in real time as opposed to waiting for a hard piece of paper to come that they need

to look at it that they might just put in a drawer somewhere. It's allowed us to do consulting with clients across the U.S., which has been wonderful.



Trying to get paid is a painful activity for LNCs. I read and hear so many stories of LNCs who run into payment problems.

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Pat: And those reports at first sound very intimidating when you talk about cashflow, and you talk about profit and loss. Can you give us any hints on how we as non-financial people should be communicating with our financial people in terms of what we want?

Sue: That's a great question. I think that learning how to work with a financial team is a process and it's a relationship. One of the things that you want to make sure you're not doing is just abdicating everything off to somebody else and then never looking at it again. That causes a lot of issues.

One of the other distinctions I like to help people understand is that in your financial team or in the financial management world there are bookkeepers; there are accounting officers and CFOs; and then there are the CPAs. And it's important to have an understanding of what each of those people bring to the table and how to best work with them and have the right expectation of their skillset.

Your CPA's job is to keep you in compliance with tax, to file your reports on time, and make sure that you're paying the least amount of tax possible. They can only do that based on the information that you provide them. It's important to have good numbers on a timely basis

that you can have strategy with and all those kinds of good things. And how you get those numbers is either through accounting or through working with a bookkeeper.

I recommend that people start with an accounting firm such as ourselves because then we're bringing that level of expertise to the table to help you learn how to connect with your numbers. Once you know how to connect with your numbers, you can then have a bookkeeper on your team. It's more expensive to have somebody on your team, but when you get big enough that works. But have somebody who's got your back in the area of making sure that you're connecting with the numbers as they're taking you on to the goals that you have, whatever that is for you.

Whether it's a cash machine or whether it's building an asset, we want to make sure that we're always staying on track, and the numbers are the best way to be tying into them, to look at them, to see on a regular basis where you are. Because then in real time, you can make adjustments. Stay in front of receivables, making sure that you're priced properly, making sure that your payables are being handled, and that the cash is flowing in a way that makes life work today and tomorrow, like we talked about earlier. All those things can be seen on your reports. The more accurate they are, the timelier they are, and the more often you look at them, the more you'll learn to make decisions from the reports rather than just kind of flying by the seat of your pants.

Pat: That's a terrific reminder. I think as small business owners, we get caught up in the day-to-day responsibilities and looking at the numbers, looking at the reports. Although important, bookkeeping seems less important than marketing calls or working on the cases. I've had legal nurse consultants who've been so absorbed in performing work for attorneys that they've almost resented having to take the time out to do the invoicing, which is necessary to keep the cashflow going. So, until you have a business that is large enough to support a bookkeeper, there's almost a constant sense of running to try to catch up.

Sue: And that's common for entrepreneurs, especially getting started. We wear so many hats when we're getting started, and we have so much passion for the output of what we're doing and the impact that work

has that the administrative side, if you will, does seem like a headache to take care of. Having said that, I have seen over and over and over that if you don't put the systems in place soon, eventually you'll hit a wall where you can't go any further until you do put those systems in place. So, if you can build the muscle of working with it earlier, then it gets easier and easier and more sustainable as things continue to grow.

Pat: And do you advocate that everybody has a budget when they are starting a business?

Sue: Yes. I think it's important to have some sense of numbers to look at, to compare what's happening against projections. In other words, if we don't have a filter system, and that's basically what a budget is for us, a filter system. I like to call it a forecast instead of a budget because it looks like dieting versus lifestyle, right. But it's that benchmark that makes the real numbers, our actual numbers have some meaning.

Some of it's a learning curve. If we're brand new, we might project that we're going to spend \$100 in advertising and suddenly, we realized that we spent \$300. Then we ask a lot of questions. "Did that work, didn't it work, what was the return?" Then we make another decision. But if we didn't have the \$100 to compare the \$300 to, we just keep spending the three. So, it's important to have some kind of relevancy for the numbers as they're happening.

Pat: I have been guilty of spending more money for advertising than I realized because of all the calls that occurred. There was one advertising rep who was very persuasive, and she was calling me several times a year to take out half-page or full-page ads in her publication, which was a directory of healthcare experts.

And one day, I asked my bookkeeper just how much we have spent this year with her, and I was shocked at the number. I hadn't asked that question before. So, I realized that if I took that amount and I put it into getting more repeat business from our current client base rather than chasing the prospect, I might end up better. It turned out I did end up better. We had gotten much more business from our existing clients, proving that old saying that you spend, I don't know if it's five or eight times more to acquire a new customer than to keep your existing customer

Sue: And when you have a happy existing customer, then the referrals come and that's what makes a big difference.

Pat: Absolutely, and those referrals are free. Isn't that the wonderful thing about them?

Sue: Yeah.

Pat: As we're plotting out this, what should we be thinking about in terms of a profit margin? What's a good profit margin?

Sue: That's a great question. When people are first getting started, I usually like to give them an easy way to look at it. So, a third of your revenues you want to have going to cost, a third of your revenues you want to have to go into re-investing, whether that's through team or advertising or whatever your strategy is. And then a third of the cost, you want to have to you to come to the house. In other words, if we can, especially in a service-based industry, if we can have that 30-percent profit margin to be building the kind of life that we're looking for outside of the work that we're doing every day. That's a great profit margin to be looking at to get to in the long run. Initially, you might be reinvesting more than that and have a smaller profit margin, but eventually that's what you would want to build towards.

Pat: Alright, so a third, a third, a third. Perfect.

Sue: Yeah, it's the same, like if you're hiring a team. You want to think about it, you want to pay them a third of what you're going to bill them out for so that you can keep that margin.

Pat: That is a good point because many legal nurse consultants hire outside contractors or they hire subcontractors, and they want to know how much I should pay this person. And the subcontractor says, "Oh, well that's easy. You just pay me what you're going to be billing me for. And you know, I'd like to be paid \$150 an hour and you can bill \$150 an hour and we'll all be perfectly happy." No, we won't pay you that.

Sue: No, it doesn't help with the overhead. It doesn't help with acquiring the client and it doesn't help with the risks that you're taking as the owner of the whole show. You must remember as service providers, especially as women, we're more the caregiver's side of things. You want people to be happy and you want them to thrive. It's one of those

things to remember. You've got to put your own oxygen mask on first. You must be able to take care of yourself first.

Pat: I had an expert witness from another part of the country who was very difficult to work with and very demanding, needed to travel first class, charged very high numbers of hours on the case. And when we were all done and I was just wrung out from the experience of working with her, she said, "I'll work for you again, but this time you'll take \$25 an hour for profit and I'll get the rest." Then I thought, "No, I don't think so. We're not working on that model."

Sue: Yeah.

Pat: Yeah, you need the profit margin. I think that's an important lesson for this. Let's finish up by talking about planning and what we should be thinking about in terms of the frequency of looking at our numbers, what we should be thinking about in terms of planning ahead. Give us some insight on that?

Sue: When I do planning with my clients, I always start with thinking ahead as far as you can. For some people thinking ahead for a year is about as far as they can go. Others, it's 5 or 10. So if you think about the big picture long term, what it is that you want to create in both the impact with your business but then also in your own personal life, then it helps us to come backwards to, "Okay, in the next year, what are we going to do and what are we going to create in order to keep you on that trajectory? And you know, one of the things you had mentioned before of somebody being a persuasive marketer to you about their widget that can help your business grow, there's a ton of ways that we could invest our money to make our business grow.

The trick is figuring out what's the best way for you and what's the best way for you today. And the answer in that lies in the planning that you're going to do. In other words, if we know that in the next 12 months we've got to acquire 5 clients or 10 clients, and this is our strategy to do it, whether it be referrals or taking out ads in the paper, we're going to put together a forecast that's going to make that happen with how we're going to invest our time, our money, our energy. And then as different marketers come along and say, "Well, what about this widget?" or "What about this shiny object that could help your business grow? It worked over here for Jane. It'll work really good for

you too." And the truth is, it might, but that's not what's on your plan today.

It helps you to kind of say yes or to say no to things along the way, as well as having that real time check-in. I encourage my clients to look at their numbers once a month. We have clients who are newer, and they probably get to it once a quarter if truth be told. But at least once a quarter, you want to be looking at things to see where you are on your trajectory because if you're off then the longer you wait to look at it, the longer it is before you'll course correct and that's just human nature. I mean, it's the way all of us work, even those of us that have been in business for a long time.

Like I look at my numbers every week. Now, I know I enjoy that kind of thing, but it's a piece that keeps me on track and keeps me focused. Most of our clients I try and have meetings with once a month or encourage them to look at their numbers once a month.

Pat: You know, I spent several years whining about the fact that I wasn't getting profit and loss reports on a frequent enough basis and it was really an excuse because I didn't enjoy the process of looking at the numbers. They intimidated me. Then I put QuickBooks on my computer, and I had no excuse. I could run my own reports, but I was a little passive aggressive for a while with a person in my business who was in charge of running the reports who himself was caught up in other things and didn't think about it. I think sometimes we can sabotage ourselves or we can avoid things that we don't want to do and get all filled with rationalizations and justifications as to why we're not paying attention.

Sue: Absolutely, and especially with money because it's a real hotbed for emotion. We tie a lot of stuff up in our relationship to money and how we think it makes us feel about where we are in life and what's going on in life. This is why I love the planning process. I call it financial forecasting or dynamic planning, so that you always got that reference point or that place along the way that you can check in to see where you're on track or where you're off track. And then it just becomes a thing that you do without the emotion. It takes the emotion out of it.

When you have a clear goal that's got numbers attached to it, it really does help you to stay on track. It helps you to stay focused on what

you're doing on a daily, weekly, monthly basis so that you're willing to do the things like look at the numbers. Because you know, it's taking you to the goal that you want, creating the kind of life that you desire, making the impact that's important for you to make. So, that's why we are willing, if you will, to step into the arena with money and numbers and all those kinds of things when we realize it's just a tool that helps us get where we want to go wherever our goals are.

Pat: Tell our listeners about your business and the services that you offer.

Sue: Okay, thank you. So, my company is a CFO agency and we're based in beautiful Kalispell, Montana, right outside of Glacier National Park. We work with small to medium-size companies. We can meet you where you are. Whether you want to do it yourself, whether you want us to do it for you or whether you're ready for a CFO level of strategy and planning to take your business to the next level. We offer all those services, as well as the tax and entity strategy to help you keep more of the money that you're making in your pocket.

Like you had talked about before, we work across the United States with virtually with most of our clients and platforms like this (Zoom), which allow us to meet with people face-to-face, have really helpful to have the kind of relationship that's important for us to have with our clients. It's a partnership. We're getting behind you with your numbers to make sure that you hit the goals that you have with your work. So, you can find us at thecfoagency.com and/or you can reach out to us here at the office and our contact information is on the website.

Pat: thecfoagency.com, thank you for that clarification.

Sue: Yeah.

Pat: Thank you so much, Sue, for giving us some guidance in for many what is a difficult subject. And you make it sound so easy and so tempting to say, "Yes, Sue, take care of it for me." I can see the appeal.

Sue: That's a good thing.

Pat: That is wonderful. Thank you for being a guest on the show.

Sue: Thanks for having me.

Pat: And thanks to you as the listener who is tuning into the show, learning tips about managing your money, tracking your money, the importance of budgeting and planning. The fact that it's important to run those reports every month at a minimum every quarter so that you can stay on track and you know where you are in terms of your income and expenses. It's also a great way to figure out who owes you money. That's another important report to run, which we didn't touch on today, but it was one that I studied carefully to look at what invoices were outstanding and then it would stimulate phone calls and collection efforts.

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