# THE STORM-PROOF BUSINESS:

## THE BLUEPRINT FOR CREATING A BUSINESS BUILT TO LAST ANY CONDITIONS

ADAM BOATSMAN, CPA

# INTRODUCTION

Why we have written this guide, who should read it, and what we aim to achieve.

If you are a business owner who is tired of fire drills, crises, employees who won't be held accountable, unmet goals, not making what you need financially – this guide is for you.

The solutions you find here work 100% of the time if you follow them precisely. If you ignore anything – no guarantees and do so at your own peril.

These concepts have been proven over and over again both in our company and in our clients' companies -- clients just like you who have adopted them.

# WHO ARE WE?

At BGW CPA, we are Anything But Typical. We're more than accountants—we're strategic partners, financial architects, and problem-solvers for business owners who want to grow, protect, and enjoy their companies.

We believe that a CPA firm should be more than a compliance checkpoint; it should be a catalyst for business success. That's why we go beyond tax returns and financial statements to provide real, actionable strategies that help our clients save money, make money, stay out of trouble, and have fun running their businesses.

We serve growth-minded, closely held businesses that value doing the right thing by their employees while driving sustainable success. Our clients trust us because we bring not just expertise, but proactive insight, strategic foresight, and an unwavering commitment to their goals.

In short, we help business owners build something bigger than themselves—something that lasts. Coincidentally, that's the intention of this book.

# OUR APPROACH

Running a business isn't complicated. But it's not easy. There's no real playbook, so this is our best shot at making one based on years of experience helping thousands of entrepreneurs like you.

We have found that if you don't have the foundational structures in place for long term success, it's like trying to swim with a boat anchor tied to your waist while dragging a parachute. You might drown, and for sure you are inefficient.

We've found that every business has very structured steps it should take, in sequence, to arrive at maximum success with minimum effort. Can you still be successful if you don't follow this sequence? Sure – but the likelihood that some incomplete activity in a prior sequence will come up to bite you in the behind is very, very high. We see it all the time. So, our goal is to give you a road map to getting to your destination. You'll avoid unnecessary frustration if you follow the sequence.

We are assuming you already have a product or a service that someone wants and already have a track record of sales. While the concepts here are still relevant if you are a pre-revenue start up, they are especially applicable for companies that already have a few wins under their belt. So, even if you are pre-revenue, don't ignore anything in this guide. Instead, implement these concepts as you go to avoid all the pain and suffering the rest of us have felt. You are welcome!

If you have been in business awhile already, our experience is that you've likely skipped a few items in the sequence. Take the time to go back and shore things up. Trust us – while you may not be feeling the pain right now – you just haven't experienced a problem from not doing the step, yet – which we like to remind people stands for You're Eligible Too – so it's probably just a matter of time before a skeleton comes out of the closet.

Many of the key concepts discussed here aren't new and can be found across several authoritative sources. Our attempt is to put them all in one place for you in a format that is easy to understand. One of our favorite books on the subject of these stages is by Dr. Ichak Adizes, "Managing Corporate Lifecycles" if you would like a much longer treatise on these subjects.

# PURPOSE

**Who is this for?**

This guide is for entrepreneurs across the spectrum, from just starting out to well established and contemplating succession. The steps, concepts, and sequences apply no matter how long you have been in business, as each concept builds upon each other.

**What's In This Guide?**

We've documented key disciplines of financial management and goal setting, risk management, process improvement, key performance indicators, and people management in a structured progression of building blocks. Our objective is to help you be as successful as you want to be without the stress of knowing that at some point a leak might burst your 'business dam.'

# THE FOUNDATIONAL BUILDING BLOCKS

Our experience is that businesses and their entrepreneurial owners fail to reach their potential because they fail to focus on a few basic principles. Even worse – many end up bankrupting themselves because they run out of cash or get caught by a catastrophic risk.

**After many years in business, we tend to hear the same flawed ideas again and again. Unfortunately, they tend to have catastrophic effects.**

Have you found yourself saying the following?

“I’ll bootstrap it, & we’ll figure out where to get the cash later.”

“I’ll sell to anyone that’s willing to pay,” or the equally risky approach of…

“We have the idle capacity, so let’s just get the sale at any price.”

“We’ve known each other forever, we don’t need a contract, our relationship goes back a long way and is built upon trust and a handshake.”

·“I don’t have time to document what we do – we are all too busy – we only hire experienced professionals anyway – it’ll be fine.”

“I know I need to get some form of protection in place (e.g., life insurance, non-compete agreements) but it’s just not urgent right now.”

“We just need to focus on sales, and the profit will come – that will fix everything,” or

“Just sell it – we’ll figure out delivery later.”

“Taxes are something to worry about at the end of the year.”

“I don’t believe in debt.”

“I’m building business value – that’s my retirement.”

**These are just some of the things we've heard over our years of advising entrepreneurs, and all are insane when compared to the negative consequences of not dealing with some key business building blocks, which are:**

1.Ensuring that a business has enough cash to operate and finance growth.

2.Ensuring that a business is protected from catastrophic risk of someone dying or a key employee leaving or getting fired by a critical customer unexpectedly.

3.Ensuring that processes are documented at a simple level, with control points to ensure they are actually functioning.

4.Ensuring that an entrepreneur hasn't unnecessarily wasted money on an unplanned or avoidable tax liability.

5.Ensuring the entrepreneur is building a business that is actually saleable while generating enough cash to build wealth even if it isn't ultimately sold.

**In the next sections – we have broken down our key concepts into building blocks that, when complete, ensure that you have the foundations in place that you can honestly say you are 'covered' in each of these five areas.**

# SECTION 1: THE BASIC FOUNDATIONS

It doesn't matter how large you are, how long you've been in business, or if you are just starting out. The basic structural elements we've compiled here are the elements that are critical to avoid catastrophes down the road.

**These building blocks provide the foundation for future success, so even if you can check off some items in subsequent sections – make sure you have these basics in place.**

These basics are:

1.) Having enough cash to survive
2.) Make sure you aren't wasting money on taxes due to ignorance
3.) Make sure you have some basic protections in place
4.) Have some alignment on where the company is going.

**Survival Cash in the Business**

While there are stories of successful entrepreneurs who took their bank accounts in the negative or were down to the last $100 before hitting it big, there are many, many more failures.

Most businesses fail due to running out of cash or never generating enough cash to get the founders out of fight or flight mode. And when you are in fight or flight mode, wondering how you'll make payroll, pay your mortgage, or which bill you need to pay to avoid a disconnect, you can't focus on what you really need to focus on – growing the company.

So critical foundation number one is ensuring you have access to survival cash, which in our experience, is one payroll.

Access to survival cash can come in many forms:

·Cash in the bank (the best)

·Company line of credit (second best)

·Home equity line of credit (or line of credit against pledge assets, like an investment account (third best)

·Credit cards (fourth best)

·Commitments from friends and family (fifth best).

By definition – what this means is that at your worst – you will always have access to a payroll in the bank. Hopefully you won't need it, but if you don't have at least this available, you will be unable to get out of flight or fight mode and the emotional toll it takes on you will reduce your ability to do what you really enjoy and need to be doing – growing your business.

Key takeaways:

a.) If you don't have credit availability that covers off at least one payroll, get it from one of the sources above.

b.) Model in the ability to save enough cash to cover one payroll thru profits and execute on this savings plan – despite the allure of 'hiring the next great hope' or 'executing the killer marketing plan.' Once you have the savings – you can do all that stuff – but actually be able to execute because you won't be worried about surviving another payroll.

c.) Don't Waste Money on Avoidable Taxes (or Forget to Budget For Taxes)

It doesn’t matter how long a company has been in business, when a new client comes to us, we always find something they left on the table. And it’s always in one of these key areas to address:

·You are deducting every allowable owner fringe benefit (we have **a checklist** for that in a separate guide and **video**).

·You are paying yourself correctly, which means you are taking advantage of the lower rate of a dividend or distribution payment relative to a salary payment in a W-2.

·If tax credits are available for you (or special deductions for your industry) you are taking advantage of them.

·Depending on your timeline to sell the company, you are set up to minimize or potentially avoid capital gains taxes.

·Make sure you are properly using the right company entity structure to minimize your tax liability (e.g. if an LLC taxed as a partnership – would having an S-Corp hold your partnership interest be of tax benefit).

## Make Sure Your Family and the Company Are Protected

Entrepreneurs believe they are invincible, or that nothing bad will happen today. Yet it does. There is the ultimate catastrophe, an untimely death, but there are also many other bad things, like a trusted business partner has a substance abuse problem that they won't address, or you found out that you are in business with a narcissist, and you now have a toxic work environment and cannot retain people.

Make sure your basics are covered in these departments:
·Operating agreements clearly and correctly reflect what should and would happen in the event of death, divorce, or removal for cause.

·Life insurance, and ideally, disability insurance is available and sufficient to cover a catastrophe with an owner. Generally sufficient life insurance will cover any company outstanding debt, any personal debt, and provide income replacement for 5 – 10 years for the family. If you can get better – great! But these are the basic minimums to target.

·Have a set of instructions of what should happen in the event of death or incapacitation (e.g. how to log into bank accounts, what is critical to execute for a few weeks, like create invoices, run payroll).

With the first bullet – removal for cause – don't leave it vague if you have a partner. Have a clear set of behaviors and notices to ensure parting ways is never a surprise. Odds are you won't have a relationship with the partner you removed later, but you will be able to hold your head up high. It is uncomfortable to have these conversations about what could go wrong, but the good news is that you only have to have them once. That's way better than years of misery working in a toxic environment. It's also uncomfortable to think about death or incapacitation. That said – your family will thank you that you did, if your instructions are ever needed!

These are your basic foundational elements. No matter where you are in your business journey, take the time to cross these off your list of to-do items so they don't cause problems for you down the road. You'll thank us later!

Have Alignment:

Don't worry too much about having a detailed, well thought out strategy. At least have a few bullets that can provide some guiding principles of where you are going. If you want to build a 100,000 employee empire, but your business partner wants to only have 10 employees, you might have a problem. Better to figure that out now rather than years from now when you are both miserable with each other.

# CHECKLIST: SECTION 1

Section One – The Basic Foundations

Survival Cash in the Business:
- Ensure access to one payroll's worth of cash or credit.
- Create a savings plan to accumulate one payroll's worth of cash.

Avoidable Taxes:
- Deduct all allowable owner fringe benefits.
- Pay yourself correctly (dividends vs. salary).
- Utilize industry-specific tax credits or deductions.
- Set up your business to minimize/avoid capital gains taxes.
- Confirm your business entity structure is tax efficient.

Protection for Family and Business:
- Create/update operating agreements for contingencies (death, divorce, removal).
- Secure adequate life and disability insurance.
- Document critical instructions for emergencies.

Alignment:
- Draft guiding principles or high-level strategy.
- Ensure alignment with partners on business direction.

# SECTION 2: THE NON-NEGOTIABLE SUPPORT STRUCTURE

While it may seem counterintuitive at first to spend any time focused on developing your back-office functions before your revenue generating functions, bear with us. Our experience shows that, if ignored, it can lead to some really, really stupid and avoidable consequences.

Back-office processes are easy to design and implement, and also aren't really that unique to any business, nor are they really negotiable. In other words, it's hard to argue against reconciling your company bank account monthly by the 10th of the following month. It's hard to argue against billing your customers. It's hard to argue against making sure new employees are trained and productive.

In our experience, the non-negotiable building blocks are:

1.) Closing your financial books and records accurately and timely.

2.) Having a clear process for onboarding customers and invoicing / collecting payments.

3.) Having a clear process for recording, verifying, and paying expenses.

4.) Having a process for onboarding new employees.

5.) Having a clear process for terminating employees.

Not surprisingly, many mature companies cannot say they have these four processes buttoned up, but they have been in business for years and by all outside measures appear successful. But inside the four walls you will always find a different story.

Let’s start with the first...

**Closing Your Financial Books and Records Accurately and Timely**

Right now, someone reading this is saying to themselves, “Yeah, I know that’s important, but come on relative to making a sale?”

Yes.

First, if you aren't doing it yourself, how do you know you aren't being stolen from? Second, if you aren't going through the details timely, how do you know you aren't paying for stupid stuff?

I am ashamed to admit that at BGW, we paid $12,000 in bank fees because we just didn't question why we still had an account open. The balance was staying stable, we weren't using the account --and that's because just enough customer deposits were going into it that hadn't been moved over to our new account that we just didn't notice – because embarrassingly we weren't paying attention to the details as the entrepreneurs. And third, what banker ever said, "No problem, Adam, I don't need to see your financials, I trust you, how much money do you need to borrow from us, and we'll make it happen."

Don't be a clown. This is an easy problem to address with loads of checklists and professionals that can help you if you don't have the skillset or time as the business owner. We could spend the next 10 pages giving example after example of bad things that occurred from having poor financial record keeping processes, hopefully these short ones make the point and are enough to convince you to get this part of your business house in order.

More on getting stolen from – make sure you retain control over cash disbursements (meaning – authorization who to pay and how much to pay) for a long time. You don't actually have to do it yourself, but you want to know exactly what's going out, and when. Make it a habit to once a month at least look at who you paid and question vendors or amounts you don't know. Same with payroll:

Look it over periodically. And lastly, don't forget about credit cards. Look over charges. This will be worth the time as it will ensure that if someone is stealing from you, you'll know it pretty quickly.

**Having a Clear Process for Onboarding Customers and Invoicing / Collecting Payments**

"Ding Ding – we just recorded a sale" Everyone is excited! But until that sale turns into cash (or if you collect a deposit, you perform the work) you don't really have anything.

Most B2B companies are relationship driven in their sales, so when they churn customers, it's devastating, especially when it's due to service issues. It's even worse when that churn occurs in the first year or shortly thereafter.

If you've ever heard, "You guys were great in the sales process, and you promised so many things, but you just ended up not delivering, so maybe we weren't a right fit or you were too busy," keep reading. You need to address this problem.

Go back and look at your churn in new customers. We'd love to say that all churn is avoidable, but stuff happens. However, churn in the first year is almost entirely avoidable and is usually due to a poor handoff between the sale and the set up / delivery of the customer.

At a minimum, make sure you have clearly documented (and by documented, we mean we mean having a documented process that employees follow consistently).

1.How does a customer go from sale into order fulfillment?

2.How does the customer get set up in the invoicing system?

3.What are the customer billing and payment terms and how is this monitored?

4.If the customer does not pay, what happens?

5.Who is going to check on the customers' onboarding experience after 30 / 60 / 120 days to ensure the company is fulfilling its obligations, and that the customer isn't having any payment / collection issues?

**Having a Clear Process for Recording, Verifying, and Paying Expenses**

Guess what? All the same mistakes you might make in customer onboarding, your vendors make with you. Unless you are willing to bet your house that you have not been over charged for anything, you likely waste money by not inspecting your bills. Just think of your own home life and all the unnecessary subscriptions and memberships you have. (Yes, the author did have three Disney + subscriptions for six months 🙁 - in fairness one was buried in a Roku bill).

Here's what we'd suggest as a set of minimums that will make sure you are staying on top of what you are getting charged:

·Make sure you are saving copies of pricing and contracts.

·Make sure one person is in charge of an expense – meaning if Cindy is in charge of the copier expenses, she should be the person inspecting the bill to ensure that it is in line with the contract and the employees aren't doing anything stupid – like printing color copies that are really black and white because they have the wrong printer settings (embarrassingly true story).

·Every few months, inspect what you have paid to your vendors to see if it is in line with what you would've expected – and demand concrete answers if it isn't.

**Having a Clear Process for Onboarding New Employees**

Laurie shows up for her first day with her new employer. As she goes to the front desk, the receptionist seems surprised to see her. She calls back to the person that should be her supervisor, Ashley, but Ashley doesn't respond. So, she calls Zach, who is in Ashley's department, to help. Exasperated, Zach comes to greet her and says, "Sit in this conference room, someone will help you in a few minutes." Over the next several hours, Zach makes a herculean effort (he already had a full day planned – that's shot) pulling together paperwork and informing people that Laurie is here to start.

Ashley finally rolls in. She finds that there was no computer ordered for Laurie to do her work. So, she just tells Laurie to just start following people around. She approaches Matt first (Matt also had a full day) and an exasperated Matt says ‘sit next to me – and just watch what I do. This continues for the next few days until a computer shows up. But – the computer doesn’t work, because none of the user accounts have been set up and the software hasn’t been installed correctly.

Laurie starts to question her decision because she feels like an afterthought. While things do improve, she keeps her resume posted on-line. When the company she really wanted to work for calls after a month, she took the offer and left your company. And the cycle begins again, and you blame the younger generation for not having any loyalty anymore.

Sound familiar – or at least elements of it?

This is entirely avoidable by ensuring that you have a game plan, scripted out, for new employees for the first week and have set up some check-ins, key objectives to know if they are being productive, etc. for the first month or two. Here, you’ll find an example of what BGW does when we onboard new staff people as an example of what we are talking about.

**Having a Clear Process for Terminating Employees**

Obviously, you need the basics here. Collect the badge, collect the computer, turn off the software accounts and logins. I'm talking about the not-so-obvious stuff that we see bite companies in the behind all the time.

Starting with the most proximate to the termination – how will you tell customers and employees? Do not be that company that has a customer call in and say 'no one told me that Richard was no longer with you – now I question the whole relationship, who's going to take care of me?' Or, equally as bad an employee speculating on what happened to Richard.

Moving backwards in time prior to the decision – do you generally offer severance packages or not? How will health insurance be handled?  These are basic questions any employee that is terminated is going to ask, so have answers ahead of time.

And lastly, look at the processes that got you here in the first place. Every business owner has heard the following at some point "slow to hire, quick to fire."It makes sense – make sure someone is a fit, and if someone is not a fit, don't keep them around long, it causes too much damage. Yet, most business owners do the exact opposite – quick to hire (we need people!) and slow to fire ("we need people" closely followed by "but I'll have to do their job"; lastly my favorite "let's give them another chance" (and another is usually a tenth chance, not a second)).

Beyond the obvious, keeping an employee around too long is costing you money because they are taking up a roster spot that could be occupied by someone else that could be more productive. Equally as bad, it makes your all-stars resent you.

Why?

Because they are picking up the slack and dealing with the messes your rotten employee is creating. So, then what happens. The all-star quits because you don't appreciate them. And the employee quits because they see the writing on the wall. Instead of replacing one person, now you are replacing two or more.

Don't be this owner.

We have found a few universal truths that were first written about by Jim Collins in Good to Great – the concept of 'right people, right seats.' Intellectually it makes sense – but practically it's hard to implement. Here's what we've seen work as a practical implementation of this advice. It might seem harsh – but trust it – it works – and you'll be better for it as will your remaining employees and all stars.

1.) Identify 2 – 3 critical behaviors that, if exhibited, result in immediate termination. We are not talking about basic workplace discrimination stuff or harassment. We are talking about things that might fly in other companies but are no bueno in yours.

An example at BGW that should be obvious – but has happened – is you cannot lie. Specifically, if you said you got something done – it should be done. If it's done incorrectly that's trainable, but if you said you did a step that you didn't do, that's lying, and it costs the organization money because someone had to fix your mistakes due to lying. That's not good and you're fired. This gets to the Right People real quick because no entrepreneur has 'Can Skillfully Lie' as a core value, right, and we're supposed to hire to our core values?

2.) Have a policy of coaching performance issues, to a point. Our experience has shown that this is a Right Seat type item. If what seems like a Right Person is struggling at their job, it could be something they can fix. However, it's unlikely. Ask your CEO friends. Has anyone on a performance improvement plan EVER been able to sustain their performance problems in their existing job (e.g. meaning – fixed the problem, and a year later, they are thriving in the same job?) You will find that by far, this is an exception. The rule is that people usually can't fix their problems (or they are unwilling) in their existing roles. So don't waste a lot of time here. If you have a 'Right Person' not performing in a seat, give them (because you are human) an opportunity to turn it around, but be very clear, and very quick, to evaluate if it's working. It probably won't – so then be prepared to move on versus giving chance after chance after chance.

3.) If you are still sold on the Right Person, evaluate if you have a Right Seat available for them. Per Jim Collins, typically the only people that do turn it around are those that are given completely different opportunities. No baggage, a fresh start, and maybe now they are in their Thrive zone. Same caveat though – spell out some clear performance objectives they are going to be evaluated against – you don't want to send a message that a poor performer in one role can get a promotion to another only to not perform in that role too.

So, have a way of getting people off the bus quickly. If you want to give a seemingly Right Person a chance – accept that it almost never works if they remain in the same seat. It can sometime work if they are moved to a new seat.

# CHECKLIST: SECTION 2

Section Two – The Non-Negotiable Support Structure

Financial Records:
- Close financial books and records accurately and timely.

Customer Onboarding and Invoicing:
- Document the process for onboarding, invoicing, and payment collection.
- Create a system to check customer satisfaction at intervals (30/60/120 days).

Expense Management:
- Centralize responsibility for each expense.
- Periodically audit vendor charges and contracts.

Employee Onboarding:
- Develop a structured onboarding plan for new hires.
- Assign clear objectives for the first month of employment.

Employee Termination:
- Establish a termination procedure (e.g., collecting assets, account deactivation).
- Communicate changes to employees and clients proactively.
- Evaluate performance improvement policies and procedures.

# SECTION 3: THE INTERIOR FRAMING AND ROOF

Now that you have your foundation in place along with your basic support structure, you're ready to start making the house look like a house (or your business look like a business), as this is where things start to get more unique to you whereas the preceding elements were more universal.

Keeping with the house building analogy, every house needs a foundation and structural support based on architecture and safety, and there isn't much negotiating or getting creative in how you go about building these items. If you ignore them, you are going to have major, major issues repairing these critical elements later, and you may have a catastrophic problem you can't fix. But what the roof looks like and how many rooms you have, along with sizes, is up to you.

At this phase, we are going to start to look at stability and predictability. Specifically,

1. ) Is the company able to accurately forecast cash flow at least 1Q out and develop a deeper cash savings / availability?

2.) At home, is the owner taking home enough to meet their basic economic needs and retirement / savings targets?

3.) Are operational processes predictable (e.g. on time delivery and a budgeted profit with a minimal error / defect rate and strong customer satisfaction)?

4.) Does management / leadership know what's important to accomplish daily, weekly, monthly, and quarterly? Is this monitored?

5.) Has the organization identified its ideal customer – and has evaluated its existing customers against this ideal?

6.) What's the basic accountability structure that fits our organization?

For these elements, we have found that there are ample third-party sources that an entrepreneur can leverage to cross off these items. Based on our experience, this section can take months to a year or more to fully accomplish, but like everything else we have discussed thus far, it's a building block that if ignored will cause problems in the future. Here are some of our thoughts on these areas:

**Cash Flow Prediction / Savings.**

Most accounting packages have a cash flow forecasting tool if you will just take the time to learn it. We've also included a link to a simple MS Excel sheet you can use here which, if operated weekly, can allow you accurately predict where you will be and adjust operationally. Our recommendation is to start forecasting for a month. Measure your accuracy, then add another month. Then a third. Then a fourth. Up to a year (anything beyond is excessive but you can do a rolling 12 months). You are just measuring planned / actual inflows versus planned / actual outflows.

For developing a deeper cash reserve beyond the life support cash we discussed in Section One, our experience is that, if you have just labor (e.g. no raw materials) anything between 2 payrolls and 4 payrolls is usually sufficient, so try to build up to a cash reserve with credit backup to these levels. If you have raw materials, using the same labor costs, plus 1–2 weeks' worth of raw material expenses, is a good benchmark.

In addition, you need to be monitoring three key cash flow measures monthly, up to weekly:

•Accounts Receivable Days – How quickly are your customers paying you? If it's getting worse, that's going to be a problem down the road.

·Inventory Days – How quickly are you converting raw materials into cash (if in our business – people and billable hours – how quickly is time invoiced and collected?).

·Debt Coverage – Are you generating enough profit to meet your minimum debt, tax, and owner distribution requirements (meaning – these balance sheet items come from profits).

If you would like to know more about these three calculations, see our video here.

**Owner Needs**

At some point, if an owner isn't bringing home enough to meet basic economic needs, then the family is going to say something to the effect of 'get a real job.' You can get away with 'but we are investing in our future' for a year, maybe two, but when you are talking five years, you really need to evaluate what you are doing and how you are going to fix the household income problem. And no, if you have a non-working spouse, telling them it's their fault – they should spend less – is not a solution. You have no idea what it truly takes to run your household. You've been working. And chances are, they are trying to be good with money.

You need to focus on bringing home more bacon.
For this, Dave Ramsey has a pretty good calculation for what you need to meet your basic household and savings needs. For more on how to apply this as a business owner, see our blog to determine those calculations.

**Operational Processes Predictable**

It goes without saying -- if you have as many customers going out the back door as you have coming in the front door, you aren't really going anywhere, and pretty soon, you will be on the death spiral as your reputation for quality and service is going to go out the window. Word WILL get out. You have to button up the leaky holes.

Equally as important, if your whole delivery / operational process is based on 'experience' and 'know how' you are going to have problems. It's not predictable. You are just lucky because you have some good people. What happens if they leave? What happens if they become dissatisfied? If you grow – how do you plug in new people to fulfill on the growth? You need to document your operational processes, and you need to measure them.

This can seem daunting, and in truth, it's a never-ending process that can feel exhausting at times. Don't worry – we have you covered. Our favorite book on process / management of process is an oldy but goody – Andy Grove's High Output Management. Read the book – great concepts. Here's what you do next:

1.) Spend 15 minutes with your team brainstorming a list of critical processes – and by critical processes – we mean 'hey – if we all did that the same – that would be awesome' type items. We only dedicate 15 minutes to this because people get really, really laser like on what's critical in operations when only given 15 minutes. They get bogged down with all day brainstorming sessions.

In our world 'Business Tax Return' would be an obvious critical process. Do this brainstorming independently then share your results and consolidate as a team on the most important. This way, you prevent group think and get to hear from every voice.

2.) Have the team write down no more than 10 steps, from end to end, that are required to complete the process. Using Business Tax Return as an example, the Process Trigger is ‘Get Information from Client’ – or Step One – and the 10th Step is ‘File with the Government.’ Make sure before you start that your team agrees on the starting point and the ending point – then have them independently come up with the 8 middle steps. Then brainstorm / consolidate your answers. For each step, clearly identify ‘who does this step’ and answer the question ‘how would we know if it was working.’ For the entire process – identify how long it should take from end to end, and how you will know if it is on track.

3.) Have the team brainstorm how you will know the customer is satisfied with the process outcome (and figure out how you will measure this).

A great template for this can be found here in this video. It’s the best process mapping tool we’ve EVER found.

Just start here and see how it goes. Too many times, people tend to document one step to the minutiae, and then they are never done. You are going for end to end at a high level, then making sure it’s followed over and over again predictably – and that you are measuring that it is taking your pre-agreed upon ideal time standards (e.g. if it should take 20 days to do something – does it?) You can get to the details of each process later as you need it.

If you commit to this same process once per quarter – in a year – you will have documented at a first pass just about everything you need to ensure your processes are controlled.

**Does Management Know What To Accomplish Daily / Weekly / Monthly / Quarterly? Is This Monitored?**

Many entrepreneurs bristle at the term 'micromanagement' and they assume that providing any instruction beyond a broad strategic objective qualifies as 'micromanagement.' Then they are consistently disappointed when people fail to meet their expectations.

Here's a little-known secret. No matter which personality survey you believe in, the majority of society profiles as people that like and want more direction. It's why they work for you instead of themselves. So, trucking down the false assumption that people want to be managed like you would like to be managed is a recipe for disaster.

This is where if you have a management system – it's time to shine (e.g. Entrepreneurial Operating System, Scaling Up, Great Game of Business). Take the time, by role in your organization, to define the one to two things you want people to do every day, no matter what. Again, in our world, it might be 'complete 1 business return and respond to all emails.' Now they know! You can measure this. And if they just keep doing this every day, consistently – think of where you will be!

Next, layer on what should be done weekly. Keep it simple – just a few things – and make sure managers are checking in to ensure that daily and weekly things are getting planned for and accomplished. For example, if at the start of the week, my plan was to get 5 tax returns done and I needed to do 3 meetings, did I? Mid-week – hitting any roadblocks that need to be cleared.

For most people – about two weeks out is all they can handle. For upper-level managers, or people who manage many key customer relationships, do the same exercise, but monthly and quarterly.

If you are using a management system like EOS, these would become 'Everyone Has a Number', weekly, monthly, quarterly scorecard items, and also Rocks. You are welcome!

And by the way – if you have a team member that is consistently not following through on either this or your process that you documented in your preceding step – now you objectively know! And you have a process for what to do – either move them to another seat or move them out of the organization!

**Has the Organization Identified Its Ideal Customer?**

This one should be obvious, but it’s not. You want profitable customers that are referring other customers that meet a certain profile. But how many are? Got it – we’ll use the excuse that you have some customers that got through the door before you figured out who the ideal customer is. But how many more are you adding that are less than ideal?

The seminal work on evaluating ideal customers can be found in the book The 80/20 Principle by Richard Koch. It says more than we could ever say on the subject, and we have found it an invaluable tool in our own business. Our suggestion is to have your key team members read the book, then have a discussion around who your ideal customer actually is, then finish up by doing the evaluation and developing a plan to:

·Shut the barn door – don’t let anymore bad / less than ideal customers in and;

·Gracefully wind down existing customers that don’t meet your profile.

As you do this, be evaluating whether or not your marketing efforts are devoted to attracting and retaining your ideal customer – or if you are just throwing money at a black hole with no real results.

**Having the Right Accountability Structure**

Similar to our statements above, there are a lot of great resources for developing accountability structures, including EOS. Our key point here is that it’s time to actually get people into more specialized roles and management structures, so it is clear who is responsible for what – otherwise no one is responsible for anything.

# CHECKLIST: SECTION 3

Section Three – The Interior Framing and Roof

Cash Flow and Savings:

- Implement a forecasting system for cash flow (start with one month and expand).
- Build reserves of 2–4 payrolls (or more with raw material costs).

Operational Predictability:

- Document critical processes with timelines and accountability.
- Implement customer satisfaction metrics for operational success.

Management Effectiveness:

- Assign daily, weekly, and monthly objectives to team members.
- Evaluate and adjust accountability structures.

Ideal Customer Identification:

- Analyze and define your ideal customer profile.
- Adjust marketing efforts and customer acceptance criteria.

# SECTION 4: FINISH THE CORE SYSTEMS – PREDICTABLE REVENUE AND PREDICTABLE PEOPLE

Now your business is really starting to come together. Using our house building analogy, we are working on finishing the exterior, hanging drywall, putting in the plumbing, and the electrical. This house is livable. Might not be comfortable and could use some finishing touches – but it's livable.

In this phase, we are going to focus on having:

1.) predictable revenue and
2.) predictable people – meaning team members.

Usually, an entrepreneur is the chief salesperson. They are also the knowledge person in chief, so handle training, all performance evaluations, raises, etc.
So, they realize that this isn't scalable, and they hire a salesperson (usually before delegating performance and compensation – they still want to have some control in this area).

Salesperson has a great resume and keeps telling the business owner about all this great progress! And after six months, no deal has closed. You couldn't hire a great salesperson on commission only (hint – straight commission with no draw is rarely attractive to top-tier salespeople), so now you've spent a ton of hard-earned payroll on a dude. They blame marketing, operations, you name it – couldn't possibly be their fault!

Alternatively (or maybe too) you delegate raises / bonuses, and the like. Next thing you know – you have a turf war. Everyone wants their people protected, taken care of, and they need more of them! Amazingly – when you were in charge – your team fit a proper bell shape curve.Somehow, magically, this team has transformed into a team of All Star champions. It's the same team. Same performance. You just have a crappy set of graders and trainers.

So, you have no way of predicting when you'll make a sale, because you thought your pipeline was awesome – come to find out – it was all BS. And your team is paid above market but providing mediocre – at best – performance. It's time to fix all that!

Let's start with sales. Sales is a numbers game. You have a count (that's customers won), an average price (what do they pay), a conversion rate (how many do you have to meet to get one), and a conversion time (how long does it take from meeting to conversion). If you know this – you have the foundations for something that will become predictable. If you don't measure this currently – you will at least have some anecdotal evidence of a best practice or average benchmark. Use the same process you used above for operations here for sales to define how you might map out your sales process.

So, if you set a goal, $100,000 in new sales, and you know the average deal is $10,000, you know you need 10 customers. Your marketing efforts should be directed towards driving 10 leads that will become customers. Marketing teams often resist direct 1:1 measurement – and that's generally true, but you can monitor trends. If the amount of $$ they are spending and/or the amount of time they are spending aren't producing a better ratio of leads, it's probably not working, you need new tactics.

If you measure these points, you know what levers to pull – more marketing to get more leads. Raise prices / change packages to change the average deal size (or cross sell more). Better training to improve conversion rate and conversion time.

When it comes to people, it's time to put some structure in place, specifically:

·What are the expectations for the job – skills and outcomes (probably around a half page to a page of bullet points)?

·What is the pay range of the job – and how will you keep up with whether or not this is a good pay range?

·How often will you evaluate performance (hint – needs to be way more frequent than 1X per year, a good practice is informally weekly as a quick check in, monthly a little longer checking, and quarterly a more formal (say 1 hour) feedback and coaching session.

·How will you train for specific skill gaps, and how will you assess skill gaps?

·How will you decide compensation increases?

·Are you going to have a bonus – if so – how will you allocate it?

·Are you giving your management team enough time to coach and mentor?

For every bullet but the last, while there are some great guidelines and examples you can follow (we've included an example role sheet / skill set (these are really going to be specific to you.

Using the process development skills you developed from above, we'd recommend mapping out your performance process, then setting up a schedule of updating our job expectations and pay ranges, so that, in a year (or less) you are done, but you are methodical. Don't forget to communicate them to the people that are in those jobs!

On the last bullet – management time – there is a large body of research that suggests that any person that has more than around 10 – 12 direct reports has too many. And, at around 7 direct reports, the manager should be spending around half their time coaching and mentoring (again – High Output Management by Andy Grove is a great book on this subject). Yet how many people give their managers the time to do this – and they wonder about the results they are getting! Investing in a management layer is a short-term expense – that can pay long term dividends if done correctly!

# CHECKLIST: SECTION 4

Section Four – Predictable Revenue and People

Sales Predictability:
- Measure sales metrics (deal count, average size, conversion rate, time).
- Map and optimize the sales process.
- Align marketing efforts with lead and conversion goals.

Team Development:
- Define job roles with clear outcomes and skills.
- Implement structured performance evaluations and training plans.
- Develop a compensation and bonus framework.
- Reduce manager-to-direct report ratios for effective coaching.

# SECTION 5: THE FINISHING TOUCHES AND KEEPING A WELL-MAINTAINED BUSINESS

Now it's time to get the place looking really nice! Move in is ready, finishing touches are done... or you've moved in and you want to keep the house in top condition. You get the analogy. In the business world, the last elements to focus on are:

1.) Continuous Improvement, and

2.) Succession / Exit Planning

Let’s look at each element starting with Continuous Improvement. Here, we are looking to address a few key items:

·Are our processes working and as efficient as they could be?

·Are we responding to changes in the marketplace?

·Are we staying relevant with our customers?

Fortunately, it’s simple (not easy) to address each of these elements. Here’s our recommendation, and again – if you utilize a management framework – using that framework as a tool to address these items is a great idea!

**Are Our Processes Efficient?**

Our recommendation is that at least once every other year, but best practice is 2X per year, assemble your team to focus on one critical process (these are your processes from Operations above, might also be sales). Likely – you don’t have more than 10. So, if you were meeting 2X per year – this would be 20 times a year you would meet (you could do two or three in a day if you want).  This might not be possible – but at least to commit to a set routine.

How will you know whether or not you need to look at a process? Customer complaints and fire drills is an obvious choice – meaning – if you have them – you should prioritize looking at the root causes.

But a more subtle foe is efficiency creep—our term for the gradual increase in costs over time that erodes profitability.

The great 'truth teller' in efficiency creep is a measurement we call 'labor ratio' which is the measure of total labor costs (including those found in your cost of goods sold, and don't forget about contractors / outsourcers that are actually acting as labor for you) to gross profit – adjusted to remove labor. For more details on this calculation, see the following resource, and our recommendation is that even if everything seems fine – the minimum lower limit should be a ratio of 2.0, the upper is around 4.0 – and there is no excuse as to why you can't make gradual continuous improvement through the spectrum.

You have other great truth tellers as well in the measurements we've recommended…and you now have a great starting point at metrics for your organization:

·Is my safety cash / cash reserve where I want it to be? If not, why? And what's the solution?

·Am I generating enough profit to meet my immediate cash obligations (the debt coverage ratio)? If not, why? And what's the solution?

·Are my customers paying me on a timely basis? If not, why? And what's the solution?

·Am I turning my inventory timely? If not, why? And what's the solution?

·Am I filling my sales funnel, getting a solid conversion rate, and time to close? If not, why? And what's the solution?

·Is my labor efficient? If not, why? And what's the solution?

Honestly there are plenty of other metrics you can look at – but our experience is that if you can master these – everything else falls into place – so focus here first.

**Responding to Changes in the Marketplace**

You don't want to be the buggy whip manufacturer (or Blockbuster, or Blackberry, or Circuit City – the list goes on and on…) and get caught with your pants down.

Here's where a management system can shine – it forces you to periodically (ideally annually) do some planning and strategy work – which almost always includes some type of SWOT analysis. Use the tools available to honestly assess yourself and let this be your guide in your planning, thinking, and monitoring, and react accordingly as things change.

**Staying Relevant with Your Customers**

For married men, a hard truth to face but if you are really looking to be different (in a better way) and are really ready to be honest, make a change (versus getting defensive) then ask the following question of your spouse:

“Hunny, is there anything you would like me to change about myself? Anything at all?” And then shut up, listen, and figure out how to implement the advice. Ask clarifying questions – but don’t defend yourself or point out how your spouse could also change.

If you are reading this as a spouse – regardless of gender – this will resonate with you.

Now – substitute your customers for your partner. It’s scary to ask for feedback. But it is an amazing tool for determining what you need to change about your organization, or better yet, what your customers value about you so you don’t inadvertently change – in a negative way – one of the positive things they like about you. Simple example – as a cost cutting move – you might eliminate your receptionist and go to a call tree – or AI. But if a customer says ‘I love I get a live person that cares about me’ you might rethink this decision or at least figure out how to mitigate concerns they might have before trying to implement such a cost cutting measure. At least every other year – and ideally once a year – survey at least a viable sample of your customers to understand how they feel about you.

We are not talking about NPS surveys over email – you should do those too. We are talking about real, live, conversations where you can have a true dialogue. It will yield a limitless supply of gold for your organization in what you are doing great versus what you can improve upon.

**Succession Planning / Exit Planning**

You can run an extremely successful business without having a defined succession or exit plan, and if you follow the principles we've outlined – chances are you have also mitigated a lot of risk of a catastrophe and are at average or above average profitability and growth – which means you have a business that has value. Congratulations!

At some point, you are going to want to leave your business – or you will be forced to. If nothing else, it is a great feeling to be able to work when you want to on the things you want to work on, which is where having a succession plan or an exit plan comes into place. It's all about getting a business to the point where it can be transitioned to someone else – whether you do so is a different matter.

So, let's focus on some last finishing touches.

At this phase, if you have been able to operate without non-compete agreements or agreements in place with your critical suppliers or customers – great! It's time to get that cleaned up.

First, if you go to sell the company, our experience has been that not having these types of agreements in place will cost you at least 1X EBITDA – meaning, if you could receive a valuation of 7X EBITDA, the best you will do is 6X EBITDA. So, if you think not going through the effort to get these agreements in place is worth that – more power to you! But most business owners would think that the effort required to shore up agreements is worth the value it creates.

Equally as important, we have story after story about how the most loyal employee, customer, supplier – pick your relationship – just one day showed up and pick your outcome – fired you as a supplier, severed your exclusive distribution rights, started their own company and stole your key customers – you name it we've heard it. More often than we'd like. Don't be that person.

Next, it's time to start thinking about the way you want to exit. If you are below the age 50, this is important, but not nearly as important if you are above age 50. The steps are the same, but the clock is ticking if you are above age 50.

Regardless of whether you want to sell the company to an external party, obtain private equity, and transfer to your employees (family / internal succession) – if you want to wind down or phase out of the business, you have to have a successor. Now, if you died, someone would take over – but that's an extreme circumstance. You are alive, and that means you have the time to train a candidate.

Management gurus would say that if you did everything absolutely perfect with respect to delegation and training, a suitable replacement candidate, once named, could take over in about two years. Assume you will not do everything right and will not dedicate your full time and attention to transition. You better plan for four to five years. Which means if you are over fifty, your window of time is closing.

If no candidate appears available internally (and don't worry about the financing, no employee has enough money to buy you out – that can be worked out in other ways) then your choice is pretty clear – you need to go on the hunt to hire someone or you are pursuing an external sale and need a buyer that either has a management team that can take over or you need to accept you will continue to work.

The point is – you should be picking a path so that you can start making decisions in the short and long term that are aligned with this path. If you don't make the path and the decision – trust us – someone else or something else will – so it is way better to get ahead of the curve even if it feels uncomfortable.

And by picking a path and starting to take action – we are not talking when you are in the car in the morning or in the shower thinking "I have a plan" – we are talking about intention – meaning that more than just you know about the plan and are actively working it – that's how true succession planning happens.

So, if over 50 – pick a path, tell a few people that can help keep you on track and accountable, and start working it.

If below 50 – it doesn’t hurt to take the same advice – but its less critical.

For more resources, check our guide to succession planning and this eBook on the 7 Deadly Sins that are killing your business value.

# CHECKLIST: SECTION 5

Section Five – Finishing Touches and Maintenance

Continuous Improvement:

- Review and refine critical processes twice a year.
- Monitor key metrics (e.g., cash reserves, AR days, inventory days, labor ratio).

Market Responsiveness:

- Conduct annual SWOT analyses and planning sessions.

Customer Relevance:

- Collect regular feedback through surveys and direct conversations.

Succession and Exit Planning:

- Develop non-compete and key relationship agreements.
- Choose a succession or exit path and communicate it.
- Start succession training or hire a suitable replacement.

# CONCLUSION

We hope this guide has helped. It is based on the collective efforts and experiences of both our company (meaning – we had to do this for ourselves) and our working with business owners just like you. It works, and the freedom and peace of mind that comes from doing the elements here know no bounds.

Is this everything you should do as an entrepreneur? No, and greater minds than ours have written excellent source materials on company strategy and governance, etc. Our point here was to give you a framework of the basics. We hope that as you do these things, you will have the time to go on and continue to grow and improve knowing that nothing in your foundation or core structure is going to let you down or cause a catastrophic failure!

Congratulations on your success so far. We hope this guide helps you have an even better tomorrow!

BGW CPA

Balance. Growth. Wisdom.