

**EPISODE 1523**

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**FT:** So Money episode 1523, running a sustainable and profit-friendly business, with Melissa Houston, author of the new book, *Cash Confident*.

**'MH:** *If the opportunity is available for somebody to steal from you, chances are it's human nature. Chances are they will because the opportunity is there.*"

[INTRO]

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**FT:** Welcome to So Money, everybody. I'm Farnoosh Torabi, coming at you from Puerto Rico, where I'm here for the Our Money, Our Power Summit, hosted by my good friend, Jannese Torres, who is the Founder of Yo Quiero Dinero podcast. She has very generously invited me to come speak to her incredible audience, people who've gathered here from all over the world to learn how to make the most of their money. I'm going to test run my keynote for *A Healthy State of Panic*. This audience is in for something. I can't say it's a treat yet. I still have to finish the keynote. I'll let you know how that goes after it's all done next week.

Today, we're going to talk to all of you entrepreneurs out there who may have started a business in recent years. More businesses were started in the pandemic than ever on record. If you're one of those founders who built a product or a service-based business, whether it was out of necessity or a passion, and you want to learn how to keep it going strong, our guest today has important advice.

Melissa to Houston is the author of *Cash Confident: An Entrepreneur's Guide to Creating a Profitable Business*. She is a certified public accountant and finance strategist who helps business owners and high-income earners build wealth. She's actually been on the podcast in the past, talking about her own financial journey. She and I talk about how to figure out what's the right margin for your business profit margin, how to reverse engineer that so that you're

always profitable, and what if you just don't like running the numbers, right? You're the creator. You're the visionary. You're the ideas person. How do you outsource this very important piece of your business management to someone you can trust, with a capital T? Here's Melissa Houston.

[INTERVIEW]

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**FT:** Melissa Houston, welcome back to So Money. It's very exciting to have you back on the heels of your new book, *Cash Confident*. I like the title so much. Welcome.

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**MH:** Oh, Farnoosh. Thank you so much for having me, and I am so excited about this book.

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**FT:** Everyone should be excited about this book. If you have any desires to start a business or you have already started a business, which by the way I read a stat the other day, Melissa. You probably know this that pandemic entrepreneurs started 4.4 million new businesses in our country alone during 2020 alone. That's the highest total on record.

Now, a lot of that was fueled out of necessity, but necessity breeds opportunity sometimes. I'd love for you to speak to that first. Like is it a good time to be starting a business now? I'm not saying that right now is like what it was in 2020 but meaning that there's still a lot of uncertainty in the world. There's still recession jitters. People are getting laid off. What do you think, the risks of starting a business right now?

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**MH:** Yes. I mean, there are always risks when you're starting a business. Especially if you're going to start a business that's going to be requiring a lot of capital upfront, you definitely want

to have a business plan when you go into business. But if you're starting like a side hustle, and you're being a little cautious about it, and you're not risking anything financially like putting your house up for collateral or anything like that, I think it's a great time.

I mean, there's a lot of businesses that, like you said, they bloom out of a desire or a necessity. Regardless of what's going on in the world, the world is so completely unpredictable right now. It's never too early or too late to start what you're passionate about.

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**FT:** Keeping it going is the issue. We know a lot of those businesses that started in 2020, if they haven't already failed, they may well in the next couple of years. I'm not pessimistic. I'm just data-driven. That's typically what happens. A lot of businesses fail. There are a lot of books that preach how to be profitable, and I'm sure you read them all as you were starting your own business, and you're training as a CPA and as a finance strategist who owns her own company. What did you think those books were missing? How does *Cash Confident* introduce a new way of approaching profitability within your business? There's a five-step approach I understand.

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**MH:** Yes. Five-Step Cash Confident Framework where we go through – I'll get to that in a minute. But I think what was really the missing ingredient with talking to business owners about profitability and how to make profit in your business is the fact that there's a money mindset issue attached to it, right? A lot of people, there's a misconception that Revenue would equal profit. That busts the myth right there because revenue definitely doesn't equal profit, and that money is emotional. For many of us, we carry so many money stories that could hold us back as business owners. So making that connection between how you manage your money and how you manage your business will really help set you up for financial success in your business.

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**FT:** Is it a right strategy, as you're thinking about your business plan, to think about, well, how much do I want to make at least in the first year or the first few years. How much that I just want

to make that I want to actually profit. Then I guess from there, you have to exit because there are expenses, and there are taxes. What's the math for figuring out, at least in the beginning, how much you need? What's a fair goal to have in those couple of years?

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**MH:** Yes. That's such a good question, and it's going to base entirely on the industry that you're starting your business in, right? So at the beginning, we've all heard the stories where turning a profit is going to take a year or two, and that's going to depend if you are starting a product-based business versus a restaurant or bakery versus a completely service-based business. So expecting a profit for most of the businesses that get started is not unreasonable, and it's so important to do a business financial plan so that you can plan out the – it's also called a forecast, a financial forecast, where you're planning out the next 12 months and having 5-year goals and 10-year goals for your business, so you know where you want to take that business.

Now, with a business financial plan, what you're going to do is you break down how much your expenses are that go into the business, and you benchmark the net profit margin of your industry. For example, if you're a product-based business, that's usually about a 30% net profit margin. So you do your break-even analysis to figure out, well, how many products do I need to sell to be able to break-even and cover all my expenses. Then you figure out how much you need to sell to make that 30% net profit margin.

When you've got a plan in place, and you've got it written down, I always say a goal – that a plan is just a wish. So once you get those plans down into your Excel spreadsheet or even if you're using pen and paper, whatever works for you, you have that road map to help you and guide you to build your business.

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**FT:** You bring up the industry benchmark. How do you know what the reality is of those benchmarks? I think that I'm going to use the example of online businesses, online service businesses, coaching let's say. We know a lot of these people who do very well on paper and as a protest on their social media and marketing pages. I'm a seven-figure, eight-figure

entrepreneur who has reached millions through my coursework. Then you get under the hood, and you realize, well, they're also spending millions to get to those millions. It creates a disoriented view of what is success in that field and what are the right benchmarks.

That's just one example. I can imagine that probably happens elsewhere because I think there is a – those who promote their Industries are invested in those industries doing well. So they're not going to say, “Oh, we're not doing well,” or, “This isn't working out for us.” They want to be perceived as successful. So how do you know fact from fiction when you're looking at these sort of figures that your sources may be the exact entrepreneurs who don't want to give you the full story?

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**MH:** You bring up such an excellent point, and I'm glad you brought it up because it goes back to my point where I say revenue does not equal profit. So you definitely need those big revenue numbers coming in. But if you don't have profit to back it up, then that's a red flag for your business.

A lot of businesses are talking about this. They've got multiple seven, eight-figure businesses, whatever is going on on the online industry these days. But the reality is these businesses can go bankrupt very easily. I've been a CPA for over 20 years, and I have worked with businesses that are making multi-million dollars in revenue. Because of just not managing their money well, usually, it's a cash shortage that causes bankruptcy in a business. So just because you're bringing in big volumes of revenue doesn't mean that you have a financially sustainable business and especially for online business owners because you're right. You look under the hood, and there's tons of expenses that go into these big launches.

I've heard the industry average is about 60 to 80 percent net profit margin as a coach. I'm not entirely sure I agree with that because looking under the hood, there are so many expenses that go into bringing in new clients and bringing – filling up your programs. Just so many things go into it. A benchmark for a healthy business in general is a 30% net profit margin, and that's making sure that you're paying yourself as an owner a salary before you calculate your net profit margin.

Now, if you're a product-based business that is more specialized in food, like the food industry, bakeries and restaurants, those are typically lower net profit margins which are about 8 to 12 percent. But for the most part, 30%, I believe, is a really good benchmark to aim for. It reminds me of the book *Profit First*, this idea of like – that book was all about this one problem that entrepreneurs tend to have which is paying themselves first, and then sort of building the rest of your accounting on that.

But this is such a struggle, clearly. I mean, there's been a lot of lecturing and books on this. When you're at least starting your business or when you coach people, like how do you do the math for figuring out your salary? A lot of entrepreneurs take zero salary in the first few years, and they live off their savings or their home equity or something because they think that's how you win. But what would you say to those folks?

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**MH:** Start paying yourself first right away. Now, I know you brought up the profit-first method. I'm not a huge fan because I'm a traditionally trained CPA, and I'm a firm believer that accounting is the language of business. So do it the traditional way. The way I teach my clients is that when you are creating your business financial plan, you need to allocate how much you need to pay yourself to meet your personal financial expenses.

For example, to live with your personal finances, it costs you 3,000 or 5,000 a month, make sure you budget that into your business plan so that you can pay yourself. When you do your break-even analysis, you've included that in your business expenses, so you have a really solid understanding of how much you need to sell each month in order to not only meet your business expenses but to pay yourself too because you're not running a hobby. You're not running a charity. You are running a business, and your business should be financially viable to support you as a business owner.

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**FT:** I think it also gives you a distorted view of the reality of what your business costs to run.

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**MH:** It's tough. It happens to a lot of business owners. You have to manage your cash levels so that you can meet your financial obligations, right? So we were talking about my Five-Step Cash Confident Framework, and the first step is money mindset. The second step is understanding your financial statements. The third step is making that financial plan. The fourth step is monitoring your results each and every month.

Then the fifth step is to manage your cash levels, having that cash management in place so that you are being proactive. You're looking six to eight weeks out and anticipating any cash shortages, so you can deal with that before it blindsides you. Then all of a sudden, you wake up one day and you run out of cash. You don't want to have to deal with that.

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**FT:** You are a CPA and good at money. But, well, you have a personal story about how you got here which I – we'll let everyone go back and listen to that episode. I'll put it in our show notes where you learned a little bit the hard way how to manage your own personal money. But when it comes to business, you know money. A lot of people just don't like it. I'm just going to speak for a whole host of people that are like, "This is not my love language, Melissa. I don't want to look at balance sheets. I don't want to look at financial statements. I get it. It's important. But I got into this business to start the best restaurant or start the best coaching business or make the most delicious croissant and scale that."

What do you do if this is not your strength? This is not where your heart lies. Do you – so you hire someone, I guess. But how do you find someone to hire, and who is this person?

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**MH:** Well, that's a good question as well because there's a lot of confusion in the accounting world as to who can support you, right? First, I want to say when you're dealing with not wanting to deal with your money, even if you hire somebody, you really need to know what's going on

with your finances. Do not give your financial power away. Don't check out of your business because if you care about making money, you need to know this stuff. You cannot trust other people completely. Now, what you – and that's where money mindset comes in, right? That's why it's always the first step when I work with people.

Now, when it comes to hiring people to support you, you have a bookkeeper who does your books, and that's basically the data entry and building that strong financial foundation for your business. Then on the other end, you've got your tax accountant who you typically bring your business stuff to, and they calculate your corporate tax return, however you've set up your business.

Then what often is missing in the middle for business owners is getting that day-to-day help on managing your finances. That's where a fractional CFO comes in or a business financial coach or a business strategist, whatever you want to call them. But having somebody in there to help and guide you each and every month, to ensure you're on the right track for profit is beneficial.

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**FT:** A fractional CFO. Can you expand on that a little bit? I've been hearing this more and more, and I think it's because we're learning as maybe solopreneurs or smaller business owners that investing in – we think CFOs are reserved for the multi-million dollar businesses. But if you're even a smaller business, there is a great need for this, and they're coming the form of this fractional CFO you describe. But like share that more with us. I think that's a really – a great takeaway.

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**MH:** It's such an important part of your team, and what that is is for small businesses, they can hire a CFO. So the large businesses have the CFO who's got the CPA and decades of experience. They can hire them on a part-time basis. So they're only paying a fraction of the cost. They don't need to bring a CFO in on payroll and pay them. They've contracted them out. They're working with them however they've made the agreement to. So whether you're getting consulting advice every month or quarter, or if they're actually doing all the reporting and



everything for you, it's going to depend on how much work you're requiring from that CFO to know what your monthly retainer is going to be.

But it is beneficial because even though – like I've heard people say, “Well, why would I hire a CFO? They're not bringing in the money.” They are saving you money on the back end. They are helping you create that profit because that profit is what you want to grow in your business. That is what's going to make you wealthy as a business owner.

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**FT:** So what are some of the pieces of advice they might give you in terms of pursuing that profit? Is it let's cut this expense or like what are – how are they getting into the weeds of things?

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**MH:** They get into the weeds of everything. Your numbers tell a story, right? So just for example, if you're a product-based business, and you're selling multiple products, and you don't know which one that you're selling is the most profitable. Some people think their best sellers is the most profitable. But if they haven't crunched the numbers, they quite often are either just breaking even on those sales. You need profit on your products to sell. So they crunch the numbers. They understand every product and service that you're selling and what the profit margins are. They direct you. This is what you need to do in order to create profit.

You may have tried like let's say, for example, Facebook ads last month. We've crunched the numbers. It didn't work. You're not getting a return. You may be hiring subcontractors that you could actually bring it in-house, and it would be a lot cheaper than hiring these subcontractors. I mean, CFOs are trained to look at not only how to bring an extra revenue, not only how to cut expenses but do a balancing act so that you hit your target margins.

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**FT:** Along those lines of having a CFO, you talk about a money advisory board. Is that board inclusive of your bookkeeper, your CFO? Is that what you mean by the money advisory board? Or is this like some friends that you talk to once a month who are fellow business owners that can give you insights? What's the network?

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**MH:** It's a bit of both, right? So having that financial structure in your business is imperative but being around people that want to talk about money, that you're following people on Twitter, the financial experts. You're listening to podcasts. You're reading books, just getting that community of financial advisors in your realm so that you're used to thinking about finances. It's not as intimidating because the first step is scary. But once you start learning about it, it becomes so much easier, and it can become second nature.

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**FT:** Repeat to me the number one reason businesses fail.

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**MH:** Eighty-two percent of businesses fail due to financial mismanagement. It is a scary statistic, but it's avoidable.

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**FT:** It's avoidable. This book is really for any kind of business. You can be a product-based, a service-based. It's the same formula.

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**MH:** It is absolutely the same formula because as a business owner, I'm not teaching you how to be an accountant. I'm not teaching you how to be a bookkeeper. I am teaching you what you need to know at a high level, that financial high level to run your business. You know your

numbers. You don't have to do the work of an accountant or a CFO or what have you. But you have to have that know-how, that understanding so that when your CFO is like, "Okay. Well, I think this is a good idea to pursue," you're the one who knows your business the best. If you disagree with it, you have that business financial literacy sense about you, and you can be like, "No, this is my business. This is how I want to do it. We're going to try it this way."

There are so many stories of business owners who've checked out of their business, and people have taken advantage of them. So prevent that. Get involved in your business. Look at your bank statements. Look at what's going on in your business so that you are not making yourself vulnerable.

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**FT:** It's crazy to me that people like that can be out there, and they prey upon business owners. We've had guests on this show. Celebrities often talk about this, whether it's Queen Latifah who came on. I remember hearing other celebrities on and off this podcast talk about how I had this accountant. When I went to their office, they'd confessed that they had lost all the money, and they were signing checks for them. They weren't telling them. There wasn't any of this disclosure with their clients. They thought they had millions, and yet they didn't. Or they had back taxes because the accountant was stealing and not taking their money and actually paying the IRS.

Let's talk about vetting these folks. What are we looking for in our CFOs, our CPAs? Obviously, certification but they all – all these folks were certified, so they're asking more to the research.

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**MH:** Yes. It's really crazy. Just hearing that story takes me back to an internal audit course I did, which sounds really dry. But I remember specifically reading that if the opportunity is available for somebody to steal from you, chances are it's human nature. Chances are they will because the opportunity is there. So by checking in on your finances, by understanding what's going on, looking at your bank statements, stuff like that, questioning expenses, that doesn't leave opportunity open for people to steal from you.

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**FT:** Wow. That's a great like sort of fear-based approach to your finances and how it can actually work in your favor. I might have to include that in the book, like let's all accept that everybody's devious, and everybody was out for your money.

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**MH:** It sounds grim.

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**FT:** It sounds grim. But, no, I mean, it's what we should be doing anyway, however you get to that conclusion. But conclude that you need to be the biggest advocate, the biggest protector of your money. Nobody cares more about your money than you. Hire the fanciest, most expensive CFO, and they maybe truly do want you to succeed. But it's not their business. It's your business.

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**MH:** Exactly. Like think about if you had a health diagnosis, and you're just like, "Well, I'm just going to let my doctor deal with this, and I'm not even going to look on Google about it, right?" Most people are researching what's going on with their health so that they can do the best job too, along with their doctor, right? So why wouldn't you do that with your finances? Your finances are part of your health.

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**FT:** Absolutely. Melissa, tell us where we can learn more about the book. Is there anything else you want to share that we didn't get into? We got into the Five-Step Cash Confident Framework. I don't want to give it all away. I want people to read your book. I think what you said about mindset is so foundational and important. I'm glad you start there, how to find the right people to

work with and how to be profitable before you start spending and know what you want to accomplish at the end of the year, to know your margins, to know your industry benchmarks. So, so important.

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**MH:** I think the one thing I would add is that if you are considering or if you haven't done this yet, if you're considering starting a business, make sure you've got your business financial plan set up. If you haven't done one yet, it's never too late. Do one for your business because that is the meat and potatoes of managing your finances.

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**FT:** Where can we – is there a template online? I'm all about the handy-dandy shortcuts. Can I go – do you have a website? Is there something that I can download?

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**MH:** Absolutely. To get information and to order *Cash Confident*, you can go to [melissahoustoncpa.com/cashconfidentbook](http://melissahoustoncpa.com/cashconfidentbook). There is a five-book bonus bundle. In there, there's templates. There's videos. There's a bunch of information that's for free if you order the book as well. All you have to do is go to that page, enter your information, put your order number in, and then you will get instant access to the book bonus bundle.

Then you can also check out [shemeansprofit.com](http://shemeansprofit.com) where it's a blog and a podcast, and there's a plethora of resources for business owners and high-income earners to learn how to manage your money.

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**FT:** Melissa, thank you so much. So appreciate you. Your book is called *Cash Confident: An Entrepreneur's Guide to Creating a Profitable Business*. Thanks.

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**MH:** Thank you so much for having me, Farnoosh.

[END OF INTERVIEW]

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**FT:** Thanks so much to Melissa for joining us. All her links in our show notes. If you'd like to pre-order my book, *A Healthy State of Panic*, go to [ahealthystateofpanic.com](http://ahealthystateofpanic.com). Lots and lots in free bonuses if you pre-order a hardcover of the book before October 3<sup>rd</sup>. I'll see you back here on Friday for Ask Farnoosh. I hope your day is So Money.

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