



Money, Metrics and Measurement

Episode #24

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Lisa Larter (00:01):

Welcome to, She Talks Business. If you're an entrepreneur, business owner or aspiring mogul, chances are you want to learn more about marketing and mastering and monetizing your business. She Talks Business is where you'll learn all of that and more. My name is Lisa Larter and I'm an entrepreneur, high school dropout, wiener dog enthusiast and your host. Let's get started.

Lisa Larter (00:24):

Well, hello, hello, hello and welcome to Season Three. Oh my goodness. Season Three, of She Talks Business. I am really looking forward to this particular season with you because this season is all about money, metrics, and measurements, which are super, super, super important if you are a business owner. However, this season may make you feel uncomfortable. This season may make you feel like, "Oh my gosh, I should know this. I should know more about this." And sometimes you may find yourself falling into money shame or measurement shame or rationalizing things like, "I'm just not good at numbers." I want to ask you to do me a favor and set all of that aside and stick with me through this season. And if you have questions about anything that I'm talking about, please send them to me, email them to me, lisa@lisalarter.com, or you can direct message them to me on Instagram. I will respect your anonymity. I won't name you on the show.

Lisa Larter (01:33):

But I got to tell you numbers and money and measurements and metrics, these are things that have been very, very comfortable for me in my entire professional career, from working in corporate, to running my own business. And so sometimes I don't know what I don't know because I'm like a fish in water. I don't know that I'm breathing in the water and nobody else can



breathe. So if you have questions, please send them to me so that I can address them on the show.

Lisa Larter (02:02):

All right. So let's talk a little bit about what we're going to talk about. So, money. Money is simple. It's the financial side of your business. It's understanding the finances in your business so that you can make good decisions as a business operator.

Lisa Larter (02:18):

Metrics are the benchmarks that you have set in your business to meet your goals. There are no right or wrong metrics. Metrics are chosen by you. So let me just give you an example of a metric. A metric might be profit margin. You want a 30% profit margin. That is a metric. It is just a thing. Someone else might have a 10% profit margin. Someone else might have a 50% profit margin. Don't be attached to the metric. The metric is just the benchmark that you have set in your business for a goal that you would like to achieve.

Lisa Larter (02:56):

Measurements are where you're at in terms of reaching those goals. So measurements are essentially, it's like the dashboard in your car. The speedometer tells you how fast you're going. It also tells you how fast you can go. And the highway signs out there tell you how fast you're supposed to go. So the measurement is telling you where you're at, in accordance to right now. So the measurement will tell you, "You have this much profit margin on this particular sale or this much profit margin at the end of this month or this much profit margin year to date." It is just a guidepost that lets you know where you're at in correlation to the goals that you've set or the metrics that you would like to meet in your business.

Lisa Larter (03:48):

So if, for example, I'll tell you a funny story. The very first year that my business did over a million dollars in sales my profit margin was just under 10%. And I was horrified by that. I thought, "I worked so hard to build this business up to this level. How on earth is it possible that my profit margins are only 10%?" And it's because I had an inflated sense of security with respect to how I was running the business because of the amount of cashflow that I had in the bank and so I spent more than I should have. But

because I found out what my profit margin was at, I was able to course correct and make changes moving forward. And I was able to improve my profit margins significantly.

Lisa Larter (04:37):

So you need to understand all three pieces. You need to understand the financial side of your business. You need to have metrics or benchmarks that you've set that help you reach your financial goals. And then you need to measure where you're at so you know what activities you need to drive or change in order to reach those goals.

Lisa Larter (05:00):

So, let's talk a little bit about why it matters. And I'm going to apologize in advance if this episode goes long. I have a lot of talking points and often when I write all my talking points down, I'm not reading, I'm sure you can tell because I trip over my words, but I do have an outline that I follow, and sometimes when I look at the outline, I think, "Oh, I don't really have very much here." And then I get into it and I realize, "Oh, I probably had enough for two shows there." So let's start by talking about why it matters. And the first thing I want to do is I want to share a story with you about a client that I worked with many years ago. And when I started to work with this client, they were struggling financially and their business was not doing as well as it could do and they really didn't understand their numbers. They didn't understand their measurements. They didn't understand what their drivers were.

Lisa Larter (05:52):

And so one of the things that we did is we sat down and we got really intimate with the numbers. We pulled all kinds of reporting. We did some old fashioned stuff. We pulled out a calendar, a print calendar, and we wrote down their sales for every single day of the past year and then we looked at each day to try to isolate what days were really good. And then we looked at the handful of days that stood out from everything else and we figured out what was it about those days that caused the numbers to be the way they were?

Lisa Larter (06:30):

And so it just so happened that the days that were really good, they were few and far between. But on those days, this business was doing \$2,500 a day in sales. And so when we pulled back the layers and we dug down deep and looked at what was happening on those days, it unlocked a strategy for marketing, because we now knew what was different about those days. And so we were able to look at all these other things in the business that we could do to drive that outcome for that \$2,500 day. And we started to measure one simple thing. How many \$2,500 days per month could we have?

Lisa Larter (07:14):

And this business literally went from a handful of these days a year to a couple a month, and then all of a sudden it was once a week, and then all of a sudden it was a few days a week, and it completely transformed the business. The business has almost quadrupled in size, and this was a pretty healthy six figure business, multi six-figure business, to begin with. It has pretty much quadrupled in size. And the owner of that business has way more financial freedom today than they've ever had before and they have a really strong understanding of what is going on in their business and what levers they need to focus on in order to drive results.

Lisa Larter (08:04):

Well, you can't do that if you don't get intimate with the numbers. You can't do that if you keep telling yourself the story that you're not good at money. But when you start by really getting kind of nitty gritty into the details to analyze and look at what's going on and you spend some time really doing some critical thinking about what's causing the results, it's amazing what you can do. Now, I started off by saying, "This might feel uncomfortable to you." And I also started off by saying, "I'm like a fish in water when it comes to numbers." So if this is not your natural thing, if this is not something that you can do by yourself, you owe it to yourself to find somebody who is good at the numbers that can help you with this.

Lisa Larter (08:53):

And if you are working with a business coach and they can't help you with this then you're working with the wrong business coach. If your business coach isn't asking you about the numbers in your business, chances are

they're not helping you get as far as you could get in your business. But we're going to talk a little bit more about that later.

Lisa Larter (09:10):

So in my experience, and I have been working with business owners, oh my goodness, it's been a least a decade, if not longer. And so there are three common things that I see most business owners do when it comes to money, metrics, and measurements. And I want to talk about those things and I want to talk about the impact that this can have in your business. So, the first thing is make decisions based on a gut feel. All right. I'm going to drill down on all of these, but I'm going to tell you what they are first. The second thing is make decisions based on end of year metrics, which essentially minimizes your ability to control outcomes because if you're like most people, you don't get your year end numbers into your accountant until the end of January, middle of February, and you don't actually know how you did last year until the end of March or maybe the middle of April when you're getting ready to pay your taxes, and by then, guess what? A third of the next year is over, done with, gone. So end of year decisions are bad. Or the third thing they do is they make decisions based on the wrong metrics. Think vanity metrics, think revenue, top line revenue versus bottom line profit.

Lisa Larter (10:27):

So those are the three things that most business owners do. When you make decisions based on gut feel, you can end up broke and out of business because your gut can lead you astray if you don't look at the data. Your feelings are not always right. Your feelings may trick you into thinking that you're going to have a new sale close tomorrow and then all of a sudden it doesn't and because you were feeling really good about working with that lead, but didn't follow through and you made a buying decision based on that feeling, you're now in trouble.

Lisa Larter (11:05):

Feelings can also create fear. And if fear is ruling your business, you will lack objectivity. When should I hire someone? When should I invest? When should I expand? So your feelings are not enough. Your feelings can guide you when it comes to drilling down and looking at the financial details to help make strong decisions. But if you make decisions based on gut feel alone, your gut will give you grief.

Lisa Larter (11:43):

All right, let's talk about making decisions based on end of year metrics. Like I said, you're always going to be playing catch up. You're going to be playing catch up because if you make those decisions based on year end, and you don't get your year-end reports until the end of the first quarter of the next year, then it makes it really hard for you to impact change. And most people, most people are raring to go in January. We all have these New Year's resolutions and these big goals for our business and you don't even know how your business did? How on earth are you supposed to start the year strong? You are going to continuously play catch up because you're operating late. Instead of proactive, you're being reactive.

Lisa Larter (12:28):

The next thing that can happen when you do this is you can get a big fat tax surprise. I remember one year going into my accountant's office years and years and years and years ago. And he said to me I owed \$60,000 in taxes and I'm like, "What? Dude, what are you talking about?" So this was because, again, I had a false sense of security that came from cashflow. So you want to understand what your tax implication is and you want to make decisions that protect the money that you owe in taxes throughout the year whether you're making monthly installments or you're moving the money into another bank account, but you don't want to find out 90 days after the year is over that you owe the government a whole bunch of money and you don't actually have any of that money.

Lisa Larter (13:15):

The making decisions based on the end of year and not in real time can also give you a false sense of security based on cashflow. I've mentioned that a couple of times now. People look at the money in the bank, which is your cash flow, and they don't realize that, "Okay, so I've got 5,000, 10,000, 50,000, whatever in the bank, 500,000." A percentage of that money isn't yours. A percentage of that money actually belongs to the government if you haven't been isolating taxes. And if you're not thinking about bills that have to come, if you're not managing your cashflow in a really strong and intelligent way, then when you get paid a chunk of money, let's just say you get paid a year in advance for a service. That happens in my business all the time, which is why I am a cashflow nut.

Lisa Larter (14:06):

So I will have a client who pays our team to do marketing implementation pay me a year in advance. So let's just say somebody pays me \$100,000 upfront. Well, guess what? I have a moral, ethical, and legal responsibility to manage that money appropriately. Because if for some reason, the client decides two months in they're not happy with our services and I need to refund them a prorated amount, I better have that money on hand. And if I'm paying somebody a salary to do that work. well, guess what? That money's got to last a year for me to pay that person. So it's really important that you don't let cashflow guide decisions without understanding what your upcoming financial responsibilities are.

Lisa Larter (14:55):

Another negative of waiting until the end of year is you're late on budgeting, you're late on decision-making, and you're late on forecasting. So if you needed to make adjustments to your pricing for an upcoming year, for example, you're late. You've already lost a quarter of the year. And when you get really bad at this and you wait until the end of year and you're not managing cashflow well, you could literally end up going bankrupt, because you get to the end of the year, you don't have money to pay the taxes that you potentially owe because you overspent it, you don't have the money that it takes to operate your business. You're now sitting in doom, gloom, and a bubble of shame because you know you should have managed it better, but you didn't know how, and that doesn't feel good. And when you don't feel good, it's really hard to turn things around and take action. So you don't want to make late decisions. You want to make early proactive and ongoing decisions.

Lisa Larter (15:57):

Three, people make decisions on the wrong metrics. I look at these internet marketers and "Oh, my seven figure business, my multi seven figure business," and, "How much profit did you make last year?" "Oh, well, I'm reinvesting in my business." I call bullshit. You are not reinvesting in your business. You're spending your money. You're spending your business's money without any regard for what it means to run a successful business. When you are running a business, don't let vanity metrics lead you down the wrong path. Facebook likes, Instagram follows, they don't pay your mortgage. It's important that you understand what metrics are the most important. You

want to spend \$10,000 on a Facebook ad campaign? Well, what's the ROI? Can you actually measure the ROI? Because if the ROI was just more followers and they didn't buy anything, then that's a sunk cost that didn't actually help you in your business. So be careful that you're not making decisions out of vanity metrics or ego.

Lisa Larter (17:16):

So another sign is you pretend that everything is going well, but you're not even paying yourself a paycheck. And so you can slice and dice numbers and pull the cherry out and tell me what looks great in just about any business, but at the end of the day, if you don't have cashflow, your taxes aren't paid, you're not making a profit, and you're not paying yourself, your business isn't doing well. And there are things you can do to turn that around. Your business exists to generate a profit. Your business is its own entity. It is not you.

Lisa Larter (17:49):

When you are making decisions on gut, when you're making decisions based on end of year, you're making decisions based on vanity metrics, your emotions are running the business, not a well-informed human being. A well-informed human being can make really wise decisions and that's why you want to understand money, metrics, and measurements in your business. It's really, really, really important.

Lisa Larter (18:19):

When you start measuring things in your business, you can turn them around. How I took my business from a 10% profit margin to a 30% profit margin. The client that I told you about at the beginning of the story went from multiple six figures to over seven figures in their business now, seven figures plus multiple sixes. And so when you get good at this stuff, when you know what's going on financially in your business, you can do better and you can see the progress you're making, which will in turn build your self-confidence because the numbers, the measurements, will show you that you're getting closer to the metrics that you've set.

Lisa Larter (19:03):

And so that leads me into the next point, which is when you actually understand what's going on financially and with the numbers in your

business, it actually has a psychological impact on you as a business owner. Let me tell you how. It reduces anxiety. Do you know what it's like? Oh, I know what it's like. I've been there. I tell you I'm good at numbers, but I learned how to get good at numbers. I know what it's like to lay awake at night and wonder, "How am I going to pay that bill? What am I going to do? I don't have that money." It creates all kinds of unnecessary anxiety whereas if you had understood the numbers proactively, you wouldn't be in that situation.

Lisa Larter (19:42):

It can also impact your ability to make decisions and the speed at which you make decisions. I wrote a blog a while ago called *Momentum Loves Speed*. When if you're trying to grow, your ability to make smart decisions that are financially sound, quickly, are super, super important. Also your ability to change gears or redefine your strategy in strange economic times or in response to something that's changed in your industry, for example. Let's just look at what we've been through the last two years with COVID. Imagine if you are a restaurant owner and you don't understand your numbers, how hard it is for you to respond to the government's rapidly changing open, closed, open, closed, masks, no mask, passports, no passports. These things impact the finances in your business. And if you want to be able to change gears quickly and feel confident about your decisions, you need to understand what the numbers mean. You wouldn't get in your car and drive someplace without understanding how to read the dashboard. You shouldn't be driving a business if you don't understand how to read the financial side of it.

Lisa Larter (21:07):

It also provides you with a filter for the focus of your time and efforts. So if you understand the ROI on something, as an example, you can spend more time on specific things. And that helps you reduce the amount of energy that you spend on things that are not as important. When you do all of these things, it affects your self-confidence as a business owner. You start to feel like you can trust yourself. You can rely on yourself. You can do this. You're not successful by accident. You are successful by design. It will give you peace of mind. You will know whether you should be growing, pulling back, staying where you're at, putting growth strategies in place. But when you don't do these things, you can't make those kinds of decisions. And if you get

to a point where you want to sell your business, let me tell you something. The last five years, the last three to five years of financial data in your business, will determine the valuation of your company.

Lisa Larter (22:14):

And so if all of a sudden you've decided today that you want to sell your business this year, but you haven't been paying attention to these things for the last three to five years, you are likely going to get a fraction of what your business is worth because you haven't been paying attention and you haven't been designing your P&L and your balance sheet to line yourself up for a solid acquisition. So if you have an exit strategy, if you're thinking that down the road you'd like to be able to sell your business, don't wait till the last minute to get good at this stuff. You want to build it good, because that is worth significantly more money than if you build it without really knowing.

Lisa Larter (22:54):

When you know your numbers, it gives you so much freedom. It gives you the freedom to make really great decisions. It gives you the freedom to base changes around hiring or laying people off or spending or whatever, on real data. You want to invest in a business coach? Well, guess what? You know whether you can, A, afford to do that, and, B, whether or not after 12 months of working with one, they made a difference in your bottom line, if they helped you. It allows you to allocate spending with confidence. It allows you to make predictions about what's possible when you do certain things. And it will actually reduce the amount of time that you need to spend in your business because you can stop doing things that are not helping you.

Lisa Larter (23:43):

One of the things that owners need to think about is how do you build wealth? You can't build wealth, your business will not allow you to build wealth, if you don't understand the numbers, if you don't understand how to invest parts of your profit into either investments or different entities to help you build more wealth. So I know it's not all about money, but at some point it is all about time. And you can't make more time, but you can buy yourself more time. You can hire people that will allow you to have more free time in your business so that you can do the things that you're great at, but you can't make those decisions with confidence if you really don't understand the numbers in your business. I'm going to say you can't even price things

properly in your business if you don't understand those things, because if you don't understand the cost of operating your business, then you can't factor that into the things that you sell.

Lisa Larter (24:46):

So I'm going to go off on a tangent for a second. When I owned our retail store, we owned a Telus dealership. And I remember when we first opened, I wanted to compensate everybody fairly so I paid them way more than minimum wage. And then I had commission that was on gross profit. And I couldn't understand why it was like I was always in my line of credit, it was like two steps forward, three steps back, three steps forward, two steps back. I couldn't get any traction in my business.

Lisa Larter (25:14):

And so one day I sat down and I was like, "Okay, I need to look at the cost of operating this business." And I took all of my expenses and I added them up and I calculated what the costs to operate was on a weekly basis, on a daily basis, on an hourly basis. So I looked at my business and I say, "We are open seven days a week." And out of those seven days, we were open I think it was like 56 hours. And I took my costs and I broke them down by week and then I divided them by 56 hours to calculate what was the average cost per hour for me to be open?

Lisa Larter (25:50):

And guess what? I was paying commission on gross profit that only met my break even point. So because I didn't know to look the numbers that way, because I just opened this business, I had arbitrarily set these numbers without taking into consideration the true cost of operating the business. So no wonder I couldn't accumulate cashflow. No wonder I was barely 1% profitable. I was literally giving away my profit because I didn't understand my costs.

Lisa Larter (26:27):

So when you understand the cost of running your business, you can choose how to price things in your business by design, so that you have the profit that you need for a successful business and you have the money that you need to pay people what is a fair and equitable wage for the work that they do for you. But you cannot do that on gut instinct. It is impossible.

Lisa Larter (26:52):

So let's talk about three levels of measurements in your business. Level one is the basics. You need to measure sales expenses, cashflow, and profit. Those are the basics. You need to know how much you sold. You need to know how much it costs you to operate your business. What's leftover is your profit. And how much money you have in the bank is your cashflow. You need to understand that at the most basic level in your business. And I'm going to say you need to understand that on an annual basis, but you should also be looking at it on a monthly basis. Don't be one of those business owners that gives your bookkeeper a box of receipts at the end of a year. Get somebody to do your books monthly so you have monthly guidance to help you at this.

Lisa Larter (27:37):

Level two. You need to understand your lead generation process and how to measure an ROI. So what that looks like is how much traffic do I need to generate a sale? How much traffic needs to walk into my store? How many buyer conversations do I have to have in order to generate one sale? Which means what is your conversion rate? 10 conversations and one sale means your conversion rate is 10%. You want to know what is my list size? What is my marketing reach? And if I have a list size of 1000 and that generates, let's say \$1000 a month in sales, well, then it stands to reason if you grow your list size to 2000, maybe you'll generate \$2,000 a month in sales. And then you need to look at those assumptions and see are they valid? Does that make sense? Or maybe if you just increase the price of something or offered a bundle to the same list size, you could actually double it. But you can't understand your lead generation process and your sales potential if you don't understand things like traffic, conversion, list size and marketing reach.

Lisa Larter (28:43):

The third level that you should be thinking about are things like cost of acquisition. How much does it cost you to acquire a new customer? What is the lifetime value of a customer? What is the slippage on a lost customer? So let me explain. Let's just say, hypothetically, it costs you \$1000 to get a new customer, and you're okay with that, because the lifetime value of a customer for you is \$100,000. Typically they stick with you for five years. They spend 20,000 a year, which is \$100,000. But you know what? That's the lifetime value of some of your best customers. But on the other side, you have like

20 or 30% that after the first year they stop. Well, your slippage is \$80,000 there because something caused them to not stay as long as some of your best customers or the majority of your customers. Can't look at that, can't understand that, if you don't know your numbers.

Lisa Larter (29:40):

Profit leaks. Where are you spending money? Where are the subscriptions that you pay for that you no longer use? Where's the money that you're not renegotiating. Did you know that you can call your bank and negotiate your bank fees? That you can call your merchant account and negotiate your merchant fees? Most people never do that, but it can actually save you money. So where are you leaking money in your business that you're not even aware of? That's something you want to look at.

Lisa Larter (30:09):

And then can you project or evaluate client profitability on a high level and a low level? So what I mean by that is, in the work that we do, sometimes our team does website projects for people. And whenever we do a website project, we have to quote the project. And when we quote the project, we have to make assumptions around scope. And so what we quote and charge the client versus what it really costs us isn't always the same. So at the end of every project, we do a profitability assessment so that we can see whether our pricing and assumptions landed us where we thought we would be or not. And when you do stuff like this, you can say, "Oh, you know what? We made a mistake here. Copywriting is taking twice as long as what we expected. Therefore, when we quote the next project, we need to build a buffer in for that." Or, "Oh, you know what? We did really well on design. We expected that it was going to take three revisions and it's only taken us one on the last 10. We could probably reduce the price of that by a little bit because it's not requiring as much time". Or maybe you just leave it that way and you just keep that extra profit.

Lisa Larter (31:28):

But you can't make these decisions if you don't know how to look at the numbers and evaluate your business. So I know it's really hard to look at the numbers by yourself if you're not comfortable with the numbers. It's like I said, it's like driving a car or flying a plane and you don't understand what all those gauges mean. I mean, good Lord, can you imagine how scary it would

be if you were on a plane and they asked you to come in and fly the plane and land it and you've never flown a plane before, because something happened to the captain? Well, don't run your business that way. If you're white-knuckled and worried about your business, you can learn these. They're skills. You can learn how to do this.

Lisa Larter (32:15):

We start businesses all the time. We have big creative ideas. But we don't always know what to measure to evaluate the success of our business. And if you are working with a business coach, they should be talking to you about things like sales, like your profit and loss statement, and even your balance sheet. In business, you really want to move your business along so that, A, you're growing your sales, B, you're growing your profits, and, C, you're building the equity in your business, which means you need all three. I love looking at my balance sheet. I love looking at how the equity in my company grows every month and every year. But you can't do that if you're afraid of the numbers.

Lisa Larter (33:04):

So, Episode 25, we are going to dive into money myths. And I got to tell you, I love this topic. I love this topic because the biggest myth of all is the one you tell yourself when you say you have a money mindset problem. You don't have a money mindset problem. You have a math problem, and math problems are easy to fix. So I want to remind you, if this episode brought some stuff up for you, if you have questions, please send them to me. I want to know what they are. Let me answer those questions during this season.

Lisa Larter (33:40):

We've got some great things coming this season. Episode 25, we're going to talk about your money mindset is a myth. Episode 26, my dear friend Sigrun is joining us and she's going to talk about her million dollar launch. Episode 27, we're going to talk about how you can make it and not take it, which is what I love, the power of being able to generate income on demand. Episode 27, I'm going to have a conversation with Margy Feldhuhn around fearlessly planning a \$10 million business.

Lisa Larter (34:16):

There's so much we're going to talk about during this season that can help you in your business, that can help you become more comfortable with the financial side of business. So I want to encourage you to stick with me through the show. I want to encourage you to read the transcript and highlight the things that really stand out for you, and to think about how can you possibly potentially change your own strategy, change your own focus? And speaking of strategy, I run this thing called The Strategy Lab, and we will be opening The Strategy Lab up to new members moving into probably November, December of this year. So if you want to be someone who is notified about The Strategy Lab, if you'd like to plan your business strategy, which also includes looking at the numbers, with a group of like-minded people moving into next year, then let me know because The Strategy Lab is a really great place for you to do that.

Lisa Larter (35:18):

All right, I'm going to wrap this up and say thank you for listening. To those of you who reached out to me about the interviews that I did for a summer of reading, thank you. I am glad that you valued them and got value from them. And I just really appreciate you continuing to listen to this show. It's a lot of fun to share with you this way, and I hope that this season is the most impactful season for you yet. Thanks for listening. And if you haven't done a review yet, you know it would make me really happy. I haven't had one in a while. Talk to you soon. Bye.

Lisa Larter (35:56):

Thank you for joining me for this episode of She Talks Business. If you enjoyed the show, you know the drill, leave us a review, tell someone about it and join the conversation on social media. Thanks for listening and until next time remember, done is always better than perfect.



Lisa Larter is a Business Strategist, Digital Marketing Expert, Author and Speaker.

The Lisa Larter Group helps their clients to formulate marketing strategies that support their business goals and objectives. Lisa provides consulting & advisory services, and implementation services including: social media & content management, book marketing, and website design.

