

Keep Cash In Your Business

Coaching Questions

Where are you spending the most amount of money?

- Pareto's law (also known as the 80/20 Rule) indicates that 80% of your costs in a business are coming from 20% of your cost buckets. For example, imagine your cost buckets are office supplies, office rent, employee salaries, and technology. Out of these 5 categories, it is likely that employee salaries is 80% of your total business expenses. That is 1 out of 5 of your categories (which is 20% of the categories) is using up 80% of your expenses. You have just identified your largest cost drivers.
- Therefore reasonably, you should be spending more time on your biggest cost drivers. As a decrease in cost for one of your major cost drivers will have the biggest impact on your profitability. It also is probably the easiest place to make an impact as you are already spending a lot of money there. For example, if a café looked at all of their raw material costs (such as coffee, tea, flour, milk, sugar, packaging, eggs, etc.). They might notice that 35% of their cost was packaging, 25% was coffee, and 20% was milk. This is 80% of their cost drivers, and places they might want to negotiate better with suppliers.
- Don't just pay attention to the cost drivers in the module. Make sure that you focus where it matters in your business. For example;
 - Construction Businesses: Maybe you need to be more concerned with fencing, garbage removal, equipment rentals, and specialized trade.
 - Law Firm: Maybe you need to be more concerned with security of files and data, printing costs, and a sleek tech interface.
 - Beauty Parlor: Maybe you need to worry about different hair products, cleaning products, and laundry.

Why are you spending the money there?

- Why are these your major costs? Think about whether they are the right ones. Are they adding value? Consider the Customer Wow module here of whether or not the parts that you are spending the most amount of money on, is it making a difference to the customer experience?
- What is driving these costs? Is there something else that is driving these costs to be higher? For example, is there a distributor that is adding margin in? Would you be able to go right to the source based on the larger volume that you are using? Could it be that the cost of the raw material is increasing and you are forced to purchase based on the market rate, could you get a fixed rate on this to protect your business?
- Can you change these to something else? Whenever you have a high cost driver, consider if there are substitutes for how you are doing this. For example, if you have high monthly rentals on a colour photocopier, would it make sense to consider just building a relationship with a printing house to do the colour printing for you and downgrade to a black & white photocopier?
- What would be the impact on your business? If you make any changes to these major cost drivers, what is the risk? There could be minimal, in which case a change is something that makes a lot of sense. Or there could be an impact on your quality, and you need to mitigate any downside if you pursue these changes.

What can you do with your money once you have kept it?

- Now that you have been following best practices to keep cash in your business, you have opened up some opportunities of how to use this once you have excess.
 - Investments: You can take this cash out of your bank account and into an investment portfolio that brings you higher returns.
 - Marketing: You can invest in marketing that could further increase your revenue and profit.
 - Scaling: You could invest in equipment, expansion to new locations, or other growth triggers like hiring or subcontracting work that allows for more scalability of your business.