SOUND
Financial Bites
with Paul Adams

104 - The Siren's Song of More
Episode Transcription

"Much like the sirens' song, many business owners end up with the same levels of financial failure and retirement as your average everyday employees and executives because the business oftentimes just gets wound down at some point."

Paul Adams: If you have the vision that you're going to sell your business, that vision of selling your business means somebody needs to acquire because they're going to acquire an asset that produces income. So the more efficient that businesses for you, the more attractive it's going to look from a financial perspective to the next buyer, of course, allowing for the fact that you're not letting a ton of deferred maintenance go on inside your business and you're not attracting new customers. But if you're running a good, solid, growing, profitable business, then that's going to be more attractive to somebody than someone that has been digging a hole for themselves for last five, or six, or seven years, continuing reinvesting back in the business, but only taking $200,000 a year off the table.

Speaker 2: Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business, magazines, and client flipping across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Welcome to Sound Financial Bites. My name is Paul Adams. I'm the founder and CEO of Sound Financial Group. I'm so glad you could be here today. Today's podcast really has to do with the kinds of external pressures that push in on entrepreneurs that make them think that they're being as successful as they could be with their money, even though they may not be doing things that lead to long-term financial wellbeing on their personal balance sheet. So, I want you to, A, listen for what those things are that might resonate with you that has you not be as effective in building your personal balance sheet, two, the advice that Jeff Miller, one of our new team members, that his grandfather gave him years ago that centers on how much money's getting set aside, not how much you're making. And last but not least, the story of Odysseus and the sirens' song that was going to attract him and his sailors to wreck their boat upon the island, and instead what he did to defend themselves and how that applies to you.

We hope you enjoyed today's podcast. What I would ask is if you feel like you want to leave an honest review for us, go to iTunes. Put us in as a review or Stitcher, wherever you enjoy podcasts, take a screenshot of it, email that to us at info@sfgwa.com. What we will do for that honest review is send you a copy of Cape Not Required, Corey Shepherd, the president of Sound Financial Groups book that was released last year. I think you're going to get a great deal of value out of it. We appreciate you subscribing. We appreciate your reviews, and we look forward to helping you design and build a good life.

Hello, and welcome to Sound Financial Bites. So glad you could be here with us. Today, we're going to cover a little bit of what we call the siren's song of more. Now, this is going to be particularly tailored to entrepreneurs that our firm works with and some of the things we see them challenged with on a consistent ongoing basis. And yet, for those of you that are those executives that are in that top 1% income-earning range, the 200,000 to a million five year of income, I think you're going to hear something really

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powerful for yourself in this as well. Just let it wash over you.

Well, let's talk about when I talk about the siren's song of more, I want to really take a from the story of Odysseus out of Greek mythology. Odysseus had received advice from a wise man named Circe , I think is what I'm saying it correctly. We'll have in the show notes a C-I-R-C-E. What he had said, his wisdom to Odysseus based upon the sirens, these were these mythical creatures, these women that would sing in and wail. It was so beautiful that entire ships full of men and their captains would wreck themselves upon the rocks just to try to get close enough to the amazing song of these women.

Well, Odysseus, having heard of this myth and how it might interfere with his journey, what he'd done is he told his men, "I'm going to be lashed to the mast. I want you guys all to plug your ears with bees wax to put me in the position where I can hear the song but not fall to my death." So what they did is when he was losing his mind tied to the mast, hearing the siren song, wanting to be in some different action, wanting to dash himself upon the rocks, his men tied him tighter. After escaping they could tell when he was unhappy that they could untie him again and talk about his experience and take the bees wax out of their ears.

Now what that I would have you all think about is there are certain things that we talk about being in the current, the way that people typically think about their money, think about finance, think about growing their business, the current that sweeps us all up and washes us downstream. We don't mind it, even when the current might be intellectually ineffective. It feels okay because we're floating along and we see our friends are kind of floating along about the same speed as we are. We're all headed down the river together, and it doesn't seem like anybody's going to get hurt on the path that we're on. That can be very misleading.

Much like the sirens' song, many business owners, we talked about it just in episode 103, the last podcast, many business owners end up with the same levels of financial failure in retirement as your average everyday employees and executives, because the business oftentimes just gets wound down at some point and/or they sell it. Those are the two major outcomes. There's all kinds of things that can go wrong that could cause the business to do that. They could get sued, could be to restructuring, could be technological change, but lots and lots of things take a business out. That business may have been successful for many, many, many years giving the owner a great deal of income, and then because of technological change or because of a political environment, or regulatory environment, or simply because you had a key employee make some big mistakes on key accounts and 70% of the revenue's gone, those kinds of things significantly erode an owner's ability, and that's outside of their control.

So, we're going to talk about today is what are the things that are the sirens' songs for business owners, or what I refer to as the sirens' song of more, where society has us thinking ... In their current, they have us thinking that what's enough for me financially, what's enough for me in my business growth, what's enough for me in total sales or even the experience that I would provide for my employees or their compensation is always more. So, what are the things that business owners have been taught? They've either been taught it because somebody mimicked it, or they've been taught what I'm about to share simply because it's how they see it on TV or what they think a business owner is supposed to look like.

Let's talk about these things that business owners are attracted by when you ask, "How's it going?" or how successful things are. Employee count, how many employees do you employ? What's your total revenue? How many locations do you have? How many trucks or units are on the road? How about the looks of your office, or how about the looks of your personal life and consumption, how your home looks, what kind of car that you drive, how many customers you have? How about the part that business ours fall for? The branding needs to be just perfect because I so deeply identify with my business that the branding needs to be perfect because that's part of what I'm showing people.

"If you're growing a good, solid, and profitable business, then that's going to be more attractive to somebody than someone who has been digging a hole for themselves for the last 5, 6, or 7 years."

The last thing that can go wrong for business owners that's part of this story of more is our perspective on spending can be thrown off. Because for us as business owners, you might be writing a check to send several people to a conference, and it's no big deal that it costs $20,000 to send a few of your people to a conference after the expense of getting there, the hotel, the conference fees. No big deal. Which makes the family vacation where you spend 20,000 not seem as big because of all the places in the business you spend chunks of money. It can distort perspective a little bit. Whereas the person who is an executive and they've got a certain level of income, they're not spending their own money when budgets get deployed, so they don't get that same misshaping of perspective.

All of these things tend to affect our clients, but it doesn't come up like they're realizing these things are affecting them. How it shows up is usually in the context of us talking with them about making sure that they first have a plan for what they want their life to look like. We're going to talk more about that in our next episode, going back and revisiting sufficiency, surplus, and superfluence in episode 105. But what I want you to think about while we're just sitting here having this chat, is that there's all the things that we want to, as business owners, as executives, as entrepreneurs, that what we want to do is look a certain way. We want to be able to not just keep up with the Joneses, but it's about like "I have a certain level of success. I should be driving this kind of car," or, "I should be spending this much money on our office." When in reality, what makes the biggest difference in a business owner's world and it's something it's not regularly talked about, is how's your profit? How much money you actually making every year for the business.

When somebody says, "I've got $6 million worth of revenue ... " And we see this a lot. We'll meet somebody has $6, $8 million of revenue, but that business owner's making 250, $300,000 a year. That is a problem when there's that much in overhead and that profit that the business owner is taking home is like balanced on the knife's edge of all those expenses. Whereas somebody else might have a business that grosses a million four a year, except they're making $700,000.

Now, one of those businesses might seem pretty boring. It might be a very knowledge-based business requiring very few employees, but it sounds very boring, but that person may actually be putting much more money on their balance sheet. What we talked about in the last episode is how that enterprise value the, one-day-I'm-going-to-sell-this-business-for-a-lot-of-money can distract us from building our balance sheet like it's not that big of a deal if I'm only making, in this case, the example I gave, if somebody is making 250 a year, that's okay because one day I'm going to sell this business. I think it's worth $7 million. But that business only gets valued one time, and it's upon sale of that business.

So, what is it that we want to do as an awareness for business owners? And this maybe something worth sharing. You may want to share this episode with four or five close other entrepreneur friends and simply have the conversation of, "How much income am I producing from the business?" Because much like we talked about in the last episode, if you have the vision that you're going to sell your business, that vision of selling your business means somebody needs to acquire it because they're going to acquire an asset that produces income.

So the more efficient that business is for you, the more attractive it's going to look from a financial perspective to the next buyer. Of course, allowing for the fact that you're not letting a ton of deferred maintenance go on inside your business and you're not attracting new customers. But if you're running a good, solid, growing, profitable business, then that's going to be more attractive to somebody than someone that has been digging a hole for themselves for last five, or six, or seven years, continuing reinvesting back in the business, but only taking $200,000 a year off the table. Because oftentimes, that extra amount of money we have on the business bounce sheet can distract us, can make us be willing to be a little more wasteful to buy that next piece of equipment that maybe we could have done without, instead, intentionally sweeping money out of the business bank account.

"Anybody can make a lot of money; very few people can get that money on their balance sheet."

A friend of mine named Alan Chafee who owns a company called Turning Point Consulting, what they've done is told business owners they're outsourced CFOs. Somebody brings them into their business and they have a CFO that can work in their business for them even though they may not have the horsepower to go pay somebody 2 or $300,000 a year. They teach their clients that one of the things that they want to do is intentionally create scarcity within the business, take that money out, get it on your personal balance sheet. Don't just leave it inside the business bank account because you will inevitably take it a little easier if you have a false sense of abundance in the business. So want to intentionally do is create the appropriate amount of scarcity in the business so that the business maintains its scrappiness and its efficiency through time.

What that starts to do is chip away. If your primary concern for your business is, "I need to worry about what kind of life it's going to produce for me and my family first and foremost. I could go work for somebody else. I'm running this business. Why am I doing that?" it's going to be have some blend of earning potential and freedom. And yet, many people don't take full advantage of what their business could give them in the way of freedom because they haven't yet gone through the transition of working on their business instead of in their business. And second, even if the business produces a certain amount of income, they're not taking the income then reserving chunks of it to buy assets on their personal balance sheet so that they then have independence from the business as well. Financial independence is always going to be built on your personal balance sheet, not on the business' balance sheet. The business' balance sheet will enable your personal balance sheet to give you the kind of independence and autonomy

“Your financial independence is always going to be found on your personal balance sheet, not the business balance sheet.”

that you want, but that independence autonomy does not exist on the business balance sheet.

Hey, everyone. I want to let you know I'm interrupting this podcast for a good reason. If you're someone who's enjoying this podcast, if our philosophy is helping you better think about money, then this offer is for you. We've opened up a financial inquiry call for our listeners of Sound Financial Bites. Our financial inquiry call is 15 minutes where one of our team will ask you some key questions, understand your concerns, and if appropriate, schedule you for a philosophy conversation with myself or Sound Financial Group's President Corey Shepherd. If you email us at info@sfgwa.com with inquiry in the subject, we will reply back to you with a link to our team calendar so you can schedule a call at a time that's least invasive for you. Even if we're not a fit, the team member having a call with you will point you in the direction of resources we have that can help you in whatever the next step for you in your financial journey is. Now back to your podcast already in progress.

So, I think for every entrepreneur listening, if what you can do is think about, "Okay, I've got a job in this company. There is a job that I needed to do," which if you've ever done any of the reading from people's writings like Michael Gerber in E-Myth, they tell you to be clear about what jobs you're performing within the company so that you can eventually hire somebody else to do them. So, it's just get really clear on making X amount in my company because I'm also the CEO, and the CEO needs to make this much money a year. Then, as the owner, I need to make the rest of the money and pay those roles appropriately because that's going to help you escape some of those other traps if what you did is you said, "I, in my business, I need to make sure that I'm producing at least X amount of cash flow every single year. And as a result of that cashflow, I'm going to be happy as an owner of this business with that person who happens to be the CEO that's getting paid." Now, it happens to also be me, but as an owner, I've given myself criteria that I would want to hold another CEO to if they were running my business. So I need to be doing that job as well.

You've got to get clear about what your job is in a company, clear what you're doing as a business owner, and what you're making as all the risk you take as the business owner, and separating that from the role you're performing as the employee the business. Just simply by separating those two, it's going to give you a great deal of resistance to the amount of things that just are the siren song to many business owners, putting them in the position they deploy and spend money in ways that maybe wasn't necessary, but more importantly, didn't lead to the long-term financial well-being of their personal balance sheet, which was the whole reason anybody usually opened a business. There are people who open businesses and it's purely mission-based change the world in that industry, yes. But, let's make sure we're changing the world in that industry and at least still taking care of our personal financial and freedom-based concerns.

I'm going to share one story as we close out today's podcast, and that has to do with a guy recently began with us, a guy who had built a significant amount of wealth on his own such that he could pull out of ... By his late forties, he never really needed to work again. He became a client. We brought him through the process, he and his wife.

His wife is still pursuing a career. She is on the partner track with a global consulting firm. As he came in and we started talking, I said, "What if you could do what we do? You don't have to work anymore, but what if you made this kind of difference working with people?" He said, "I would love that."

He recently attended a conference with me and my team. His name's Jeff Miller. I know you're going to hear from here on the podcast. But, he mentioned something his grandpa shared with him ever since he was very young, you know, started getting a job, start earning decent money out of college, and his grandfather said to him, "I don't want to hear what you make. I want to hear what you save. Anybody can make a lot of money." Very few people can get that money on their balance sheet.

That's what I want for all of our entrepreneurial clients to hear, is that everybody brags about all these other things, employee count, how many employees are at each location, how many locations are there, how many trucks are on the road. Do you own your building? What was total revenue? All that stuff is great, and I'm not saying you should ignore any of those metrics. But when it really comes down to it, many of those metrics won't matter if we're not driving enough money to our personal balance sheet and getting a chance to reserve it, save it, put it into a wealth coordination account the way we talk about in episode 45, and make sure it's going to work on your balance sheet, not just getting transferred to somebody else's either through spending in the business or spending on our personal balance sheet in a way that's not first caring for our personal security.

That's where I want to leave you guys is that much like Odysseus needed to put in structures, needed to put in systems, need to put in people around him to become advocates for him to be in the right behavior and not fall victim to the siren song, I want our business owner clients ... Maybe what's a good idea is to have a key executive or to listen to this, maybe have your spouse listened to this episode. The idea being is if you anchor yourself in, "How much money do I make this year? How profitable is my business?" and those were your two biggest pride points, those may not be things you could tell just anybody, but you could surround yourself with a key group of other entrepreneurs or account ... people that are accountable in your life, like your spouse, and be able to have that start to orient you differently, away from the current, the way everybody else thinks, away from the siren song, and instead into a conversation that has you taking really good care of your future.

So, strap yourself to mast. Figure out what those systems and structures need to be so that you're able to pay attention to investing in the things in your business that are going to either, A, grow the business in value or are going to drive money to your personal balance sheet. And then, are you taking at least a 20% of that gross that comes off of the business landing on your balance sheet and buying other assets? Because that personal balance sheet, your financial independence is always going to be found on your personal balance sheet, not the business balance sheet. We hope that this has been of value to you today and a contribution to help you be able to design and build a good life.

Speaker 2: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, soundfinancialbites.com, or email us at info@sfgwa.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.

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