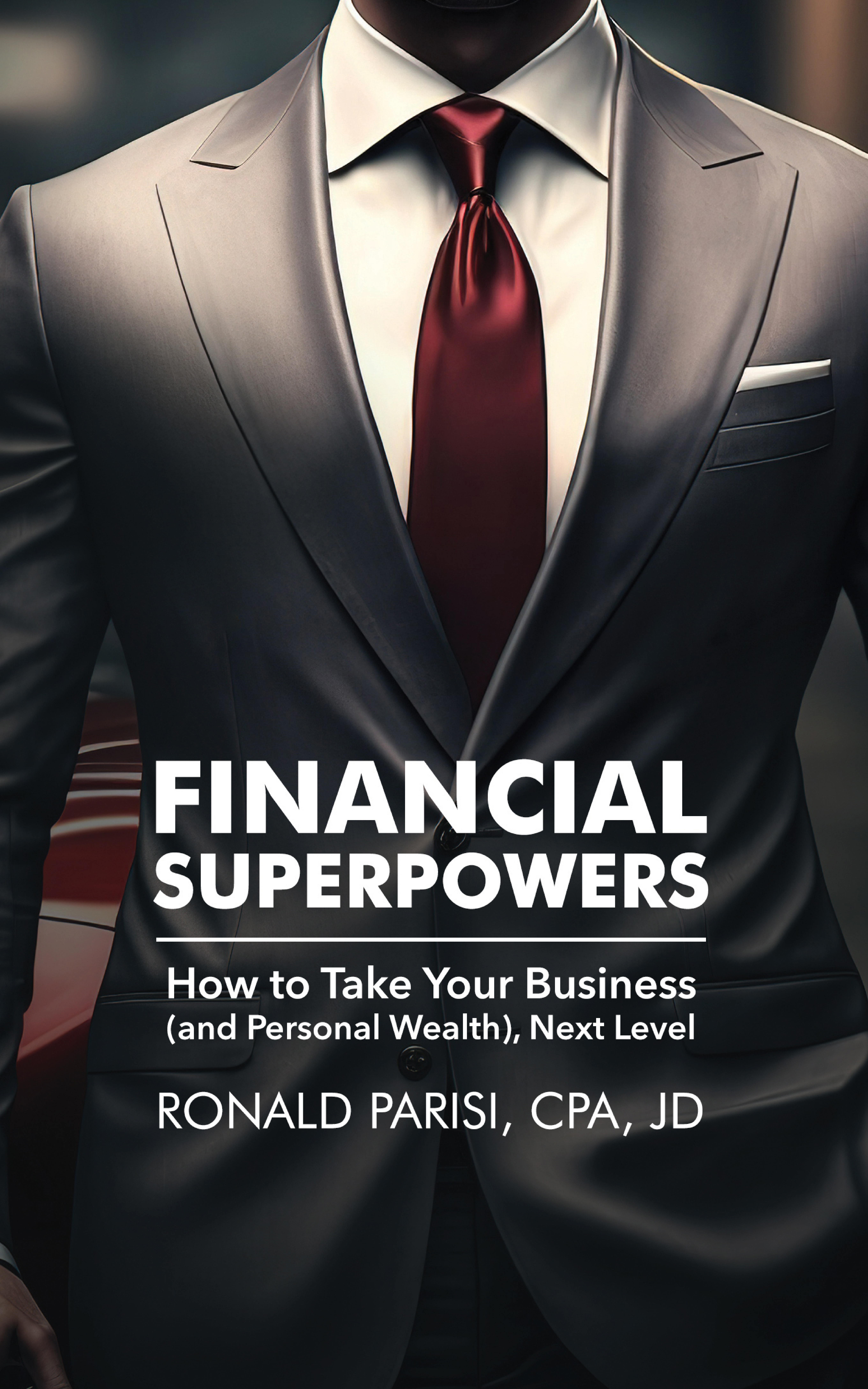

FINANCIAL SUPERPOWERS

How to Take Your Business (and Personal Wealth), Next Level

RONALD PARISI, CPA, JD

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FOREWORD

Entrepreneurs on Fire has been working with *CPA on Fire* for almost a decade. When Ron approached me to write the foreword for this book, I told him it was about time he wrote a book for entrepreneurs about how to run their financial operations!

I've had the privilege of interviewing over 4,000 entrepreneurs and business experts for my daily podcast, Entrepreneurs on Fire, over the past 11 years, and I have heard it all. So, what could another book on financial management offer that hasn't already been addressed? I knew if anyone could do it, it was Ron.

As I dove into the manuscript, I saw exactly how Ron's vast experience working with online entrepreneurs, and his unconventional insights, could ignite a company's financial results.

This isn't just another book on business finance; it's a masterclass that bridges the often-conflicting worlds of entrepreneurial ambition and financial operations.

The chapters within this book outline an approach to financial management that both caters to and challenges the entrepreneurial spirit, providing actionable strategies and insights tailored specifically for fast-growing businesses.

I can't tell you how many times I have sat across from a budding entrepreneur, either virtually on a coaching call or in person during a live event, and heard the same narrative: "I just wish someone had told me about this earlier."

What is "this"? The pitfalls of traditional financial systems and the overlooked strategies that can optimize and simplify a business's financial operations.

Well, this book is that "someone" who tells you about "this" *before* you hit the pitfall.

Ron's rich background, spanning corporate finance and intersecting with entrepreneurship, comes to life in these pages. He doesn't just talk about the issues faced by entrepreneurs every single day - he offers solutions that have been tried, tested, and that actually yield results. And if the success of his financial advisory company, *CPA on Fire*, is any indicator, then they certainly walk the talk.

The most intriguing aspect of the book for me is Ron's notion of "rearview accounting" and the manner in which he emphasizes the urgency for modern businesses to break free from it. It is high time that businesses, especially fast-growing ones, leverage real-time, forward-looking financial strategies that align with their goals and vision.

For my listeners in Fire Nation, and any entrepreneur out there looking to scale their business, this book is a treasure trove of actionable strategies you can implement right now for big results.

It's not just about understanding numbers, but about how to make those numbers work for you. How to move from a reactionary stance – where you're merely responding to financial events – to a proactive one where you're planning, predicting, and harnessing your finances for exponential growth.

If you're an entrepreneur, you already have the drive, the passion, and the vision. What this book offers is the compass to ensure that your financial decisions are not just sound, but strategic. It's not enough to have a vision; you need the financial acumen to realize it. And that's what this book delivers.

So, as you turn the pages, remember this: every figure, every metric, every financial strategy you adopt can be a tool to not just sustain your business, but to propel it forward. Equip yourself with this knowledge, challenge your existing notions, and watch as your entrepreneurial dreams turn into tangible successes!

Let's ditch the myths, embrace your financial superpowers (they are definitely there!), and redefine what's possible for your business.

Dive in, learn, and prepare to IGNITE!

John Lee Dumas
Owner/Founder/CEO
Entrepreneurs on Fire

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PART THREE

EXPANSION & EXIT

INTRODUCTION

Congratulations. I sincerely mean that—*congratulations* on taking your company this far. Growing revenue to seven-plus figures is incredibly difficult, and you did it! You probably have some scars to show for it, along with plenty of stories to tell. But every entrepreneur who achieves this feat faces a new, critical challenge. Even if your company isn't making Inc. Magazine's 500 fastest growing companies list yet, its continued success and growth will be fueled (or stifled) by how you manage finances. And the strategies that got you this far are probably not the right strategies for continuing to grow and generate wealth through the next stage of your company's life.

The very fact that you're an entrepreneur will be a significant part of the challenge. Here's what I mean: As an entrepreneur, you have a distinctive way of thinking. You want and expect to move quickly—at the speed of thought. You have multiple projects—

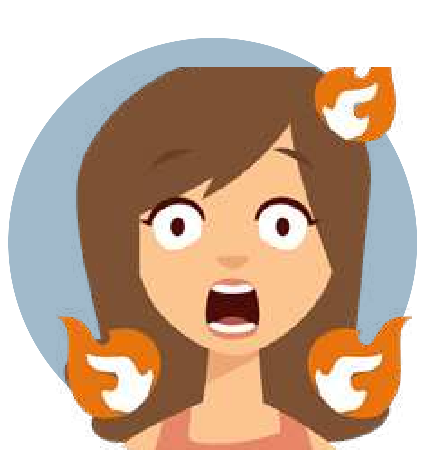
even multiple businesses—on boil at the same time. And you don't like being told no, or even told to wait. But despite all this, your financials, your growth engine, are being managed in traditional ways and by professionals that are not oriented to entrepreneurial growth strategies and metrics. As I'll show you, this mismatch will hold you back. Revving up your financial engine requires a non-traditional approach that is both entrepreneurial in nature and grounded in sound financial strategies for growth and wealth building.

As an entrepreneur who has also had a fast-track corporate career on the financial side, I have a clear view of the problems that entrepreneurial companies face when they want to grow, especially when they want to grow quickly, or even just more than the standard 2-3 percent per year. Over the course of more than twenty-five years in business—including working in the audit department for the entrepreneurial business sector of a Big 4 accounting firm, being a corporate attorney representing business owners and entrepreneurs, and holding an executive VP position for a California-based insurance company—I have seen too many entrepreneurs fail to realize their company's full potential. This is very often for one simple reason: Their financial operations were not up to the task of guiding their company forward.

To help you avoid that fate, I'm offering you this playbook. It will show you how to set up your financial systems so they serve you and your business (not the other way around). Your goal should be to simplify your financial operations and maximize your growth, and I'll provide you with practical steps and blueprints for doing exactly that. This will require a new kind of financial literacy, and you'll also need to change your financial habits. To help get you there, I will give it to you straight. At the end of the day, the good decisions you need to make will come from having the right financial metrics available in a way that promotes rather than hinders your growth. I will help you understand, in a clear and fundamental way, what you need to know and what you need to stay focused on.

At the core of what I'll share with you is the fact that entrepreneurs and business owners are being underserved by the traditional accounting industry. Everything is being reported in a "rearview mirror" way and at a pace that doesn't serve the entrepreneur. My financial advisory company, CPA on Fire, works with high-performing entrepreneurs and growing businesses, and we have seen the toll that this old industry approach can take. It particularly overwhelms and burns you out so you feel like you can't do any more and can't work any harder. If this describes you in any way, the good news is that your overwhelm and burnout are most likely the result of poor financial operations and the fact that you haven't optimized your decision-making. I will help you with that. No matter how stressed out you are, now is the time to hone in on the factors that make your company profitable—which traditional accounting will not do.

THREE TYPES OF CLIENTS



Hair On Fire

Treading Water

Blue Sky

At CPA on Fire, we typically come across three types of business owners: hair on fire, treading water, and what we call “blue sky.” Hair-on-fire business owners are obviously those who have multiple crises going on simultaneously across different layers or levels of their business. Those who are treading water are making it in a very limited sense—but you can’t tread water forever. It’s exhausting. For blue-sky business owners and entrepreneurs, the horizon looks clear and inviting, so they’re free to look for better ways to grow and increase profit. Whichever category you might put yourself or your business in, this book will help you.

My goal is for you to turn things around, so you aren’t serving your business but are, instead, a true CEO who has gone from wondering where all the money is going to knowing how to tell the money where to go, in order to maximize growth and wealth building.

I should emphasize that all of the information I’m sharing with you is relevant now—and that I’m speaking from current experience in today’s business landscape with today’s risks and opportunities. CPA on Fire regularly helps entrepreneurs handle the complexity that comes with growth, so they can create exponential success by spending more time working with their clients and building their businesses. This is possible because we free them from their accounting, taxes, and regulation nightmares. In one recent case, our financial operations system helped a company go from $2 million in annual revenue to more than $20 million in only two years.

Whether you decide to work with us directly in some capacity or take this information and run with it on your own, this book provides just about everything you need to know about how to simplify and scale your business so that you can stay in your area of expertise. The crux of the matter, as I have already said, is financial management—but through the application of an innovative system that empowers you to grow exponentially. As an entrepreneur and a financial expert, I have unlocked the conventional conflict between accounting and fast growth, and I love to share my insights and expertise—to give other entrepreneurs the tools and understanding they need for rapid growth.

Much of this book will help you examine how you're currently running your business—this will allow you to reimagine how your financial team serves you.

Among other things, I'll cover what I call "rearview accounting" and other financial roadblocks, as well as funding groups and charts of accounts, your fundamental business engine and wealth drivers—including tracking key performance indicators (KPIs) and return on investment (ROI)—and how to take your business to the next level once you have your financial system operating well.

Here's a quick test to see if you're in the right room. If you can relate to any of the following statements, then this book will help you.

- You're "winging it" when it comes to your finances. As long as there's enough money to cover expenses and payroll, you're fine.

- Your eyes glaze over when your CPA sends you reports. Maybe you don't even read them.

- You're relying on your own metrics and various standalone spreadsheets to see how your company is doing.

- Your current financial system checks all the compliance boxes, but there's no strategic insight, nothing in place to identify missed opportunities, and no custom profit/expense analysis.

- Your accounting person or team can't keep up with your vision and growth plans.

- You're not properly leveraging your business to leverage your own wealth. Perhaps you have an "I'll get it all at the end" or "I'll outgrow my problems" (hint: never works) mindset.

- You're curious about how a virtual CFO with an entrepreneurial mindset might help your business.

- You want to position yourself for "next level" financials, including a strong exit, acquiring new businesses, or obtaining VC financing.

Is any of this sounding familiar?

Then let's get started. We have a lot of business finance myths to dispel, as well as some powerful, strategic financial operations to put into place—so you can unleash your financial superpowers.

PART ONE

IGNITION

CHAPTER ONE

REARVIEW ACCOUNTING AND OTHER FINANCIAL ROADBLOCKS

"If you find a path with no obstacles, it probably doesn't lead anywhere."

— Frank A. Clark

I believe that entrepreneurial companies are special, and that they require a unique financial mindset. Even if you already have a CFO or financial controller, this book will be very relevant to you. In fact, if you already have a CFO or controller, you'll really benefit from the perspectives I share in this chapter. The same is true if you work with a CPA or a CPA firm—or even just a bookkeeper. Once you understand what you truly need from your financials to grow your business quickly, there will be no turning back.

Let's also be clear that your business is, of course, not just about the financials. You need a solid understanding of how deals work, how contracts work, and much more. In fact, the legal piece and the taxes piece work in tandem with your financials, which is why when CPA on Fire works with clients, we bring all those components to the table. But your financials are the key—after all, making money is the reason we're all in business (profit = impact)—and also where entrepreneurial companies get stuck. If creating wealth is a primary goal, as it should be, then you need to build your financial engine with that goal in mind. The problem, which I'll unpack in this chapter, is that this goal is directly at odds with traditional accounting, as is rapid growth.

Rearview Accounting

While it's not a perfect analogy, think about how your driving would suffer if you had to keep your eye on the rearview mirror and could only occasionally glance at where you were actually going—the complete opposite, in other words, of how you currently drive your car. Yet this is generally the state of business accounting practices. They are focused on what *has happened* and not on what *is happening*. Everything that traditional accounting feeds you is in the past. There's no prospective accounting and no view of what's coming down the pike, so you're limited to making all your decisions through the lens of your business's history.

This happens in large part for reasons involving compliance. Regulatory compliance is a huge task for any business owner. It's very easy for traditional accounting firms to get bogged down with tax returns, payroll returns, processing payroll, and doing other rearview bookkeeping. What business owners and entrepreneurs need, however, is specific information that will help them run their companies and make great business decisions.

The general CPA services with which most business owners engage involve simply checking the boxes. They're doing the bare minimum, and there's a gigantic gap between the bare minimum and having a truly functional financial dashboard and financial optics that help you make great decisions and give you confidence to grow.

Every business is complex. You have multiple revenue streams, various expenses, and labor. You need to be able to see your business in different verticals through specific growth-oriented indicators so that you can see and therefore optimize your company's profitability. However, traditional accounting, or rearview accounting, gives you a bunch of information without providing foresight or giving you metrics on what's driving the company's profitability.

If your company is valued at between $1 and $10 million, for instance, which is typical for an entrepreneurial startup, you're probably not one of your accounting firm's top clients. And that means you're probably being advised by one of their youngest associates. You're not getting seasoned advice. Also, there's a mindset mismatch. Most traditional companies grow at a rate of about 2 percent per year. As entrepreneurs, however, we want to grow 10 to 30 percent every year, which means there will be a lot of change. Traditional accountants, as you may know, don't like change. They don't like keeping pace with a rapidly growing, complex company.

I don't want to give the impression that traditional accounting is anti-growth, but that's how it can appear from the entrepreneurial perspective. Your accounting support team or finance department is trying to maintain the status quo and keep things safe and locked down. They're not advocates of big ideas, big growth, or big plans. They're not thinking about your company's lifecycle or your exit strategies. They're not looking at the big picture. Most importantly, they're not moving any of the key levers in the ways that every business needs for maximum profitability and growth.

The bare knuckles truth is that traditional accountants have a vested interest in their contract with you and in that contract's stability. They very rarely have a vested interest in your entrepreneurial success. This means that they're not necessarily putting themselves in your shoes. They're not exploring exit strategies with you, standing with you, or in your corner as you make difficult decisions, protecting you.

In fact, from their perspective, your fast growth creates a strain. It's too unpredictable, and unpredictability is not something accountants typically thrive on—they're not like us entrepreneurs.

Furthermore, my experience is that when a company led by an entrepreneurial founder has a CFO or a controller, the founder is usually kind of dragging their CFO or controller behind them. But with all traditional accounting, no matter the source, what you're getting is a financial statement that's hard to read. It's not functional, so you can't use it to make decisions. Nothing that a traditional accountant gives you is about the future, which means that you're probably leaving money on the table every day. Not to mention that dealing with your financials in this way drains your time and energy.

In-House Finance Departments

One sure sign that your financial operations are not working for you is that you avoid calls with your CPA or don't even read the statements you get from them. Maybe you have your own little cheat sheet that you keep with a few metrics that you check to make sure everything is okay. Or maybe you get what's called a chart of accounts—an alphabetized catalog of all your company's financial transactions, which truthfully has little bearing on the true costs of running your business. It's not giving you real insight. And if you're not reading your chart of accounts or your other statements, then they're obviously not valuable. If they contained actionable insights into your business, you'd dive into them right away. You wouldn't wait.

One common solution to this problem is to hire a finance team and bring everything in house. But for the typical $1 to $10 million business, it's nearly impossible to hire at the appropriate levels. A bookkeeper will give you really good financials that, from their perspective, are up to date—but, again, they're showing you the rearview mirror; they're not showing you how to get where you want to go. When we have clients who hire CFOs, generally what happens is that either those CFOs are overqualified and don't like to do the work, or they aren't oriented to entrepreneurial businesses. They're much more into a traditional model, which is useful for a more regulated business.

And they usually don't last very long.

The truth is that hiring one person who can really give you insights into your business, who can actually roll up their sleeves and get into the financials and get the bookkeeping completed, who truly understands payroll and all the state implications, and who also understands taxes, tax planning, and the strategies involved is mostly an exercise in futility. You are looking for an affordable unicorn—or something nearly as rare. And traditional accountants, in addition to not being able to give you the metrics you need to grow, are going to have a hard time keeping pace with your changes and the speed at which you want to grow.

Another dynamic we've seen a lot is that of a conservative in-house financial person who wants to keep all the money in the business. But maybe that won't provide the best return for you as a personal investor, and maybe it's not the best overall strategy from the standpoint of your own personal wealth. They likely want to hoard the cash inside the business in case of some kind of downturn, but when it's locked up like that, there's not a lot you can do with it. That conventional approach inhibits the wealth-compounding effect that founders need to really take advantage of (and which we'll discuss in another chapter). Not only that, but the business owner entrepreneur may want to invest that money in a new business or new business opportunities, new services, or new products. The business owner's level of comfort with risk may be at odds with that of the traditional in-house finance person, and this can be a real barrier to growth.

To sum up this chapter, the way you're managing your finances is almost certainly impeding your growth, and you need a system that ignites growth. You also need a view into your finances that provides actionable insights. So now let's talk about how to achieve these things.

CHAPTER TWO

REVVING UP YOUR COMPANY'S MONEY ENGINE

"People say that money is not the key to happiness, but I always figured if you have enough money, you can have a key made."

— Joan Rivers

It's time to turn our attention to your company's money engine—and that engine won't fire up if it's not designed correctly.

As we just discussed, there's *usually* a huge chasm between the mindset and goals of a CFO or a controller and what an entrepreneur and business owner needs.

You need the right mix of entrepreneurial thinking and growth accounting metrics. And the team that I've built for my company has this mix: It combines the blue-sky mentality of an entrepreneur with financial prowess and expert day-to-day business management. This is what allows us to thrive in the fast-paced environment of working with companies that are profitable and fast-growing, that want to optimize, and that aren't afraid to change.

So let me share some initial steps that you need to take, based on my experience of what works and why.

A first step will likely be adjusting your mindset—you need to see your role, and your relationship to your business, differently. Because if you're currently serving your business and not allowing your business to serve you, you have the wrong mindset.

Let me say this very clearly: *Your business serves you, not the other way around.* In fact, your current business is just one of potentially many businesses that are going to serve you.

This mindset shift may seem like a small distinction, but how you see your role is the difference between treading water (that is, just getting by) and having a business that truly grows your personal wealth. You need to view yourself as an entity separate from your business. Your business generates money and opportunity for you, and you need to run your business as an independent person.

To begin establishing this independent role, you need to look closely at your business's ROI—its "Return on Investment." And how do you do that? With current, accurate financial statements and reports containing straightforward KPIs that truly measure ROI. In other words, you have to start by getting up to speed on the current state of your business, in terms of ROI and profitability. Later, you'll be able to look forward and perform relevant forecasting and prospective accounting, but first you need to understand where you are.

This means that every month, you should not only be tracking revenue, sales, expenses, and profitability, but also be looking at the variables that drive sales, drive your various expenses, and ultimately drive your profitability. And most importantly, you should be able to reverse-engineer each of those indicators so that you can know how to positively influence them.

Focus your energy on that reverse-engineering process and looking at what's affecting your ROI and profitability. The process will be very enlightening.

Here's one example we see a lot: Your largest revenue stream might also be your least profitable. When this is the case, companies often end up spending an inordinate amount of time growing their top line, while their ancillary or secondary products, which are more profitable, get insufficient attention.

On that note, if you're in a low-profitability business, take time to look at new potential revenue streams with high profit margins that you can spin off from your current product offerings. You may have a product or service there already, or you may need to spend time creating it.

This was the case with a digital marketing company we recently worked with. When we started working with them, they came up with some ideas about doing a coaching program based on the success of their business. That was Phase One. Phase Two was when they went high-ticket with this service. That was something we developed together, and now it's about 60 percent of their top line with a very high margin. This company's experience proves once again that when it comes to founders, business owners, and entrepreneurs, the eighty-twenty rule—where 20 percent of your activity leads to 80 percent of your results—rarely maps out how they think it does. And this is why it can be so difficult to grow a business. The reverse-engineering process forces you to find hidden opportunities.

Your Financial Dashboard

When you're driving your car, you need your dashboard indicators to operate in real time, right? Feedback from last week or even five minutes ago can have catastrophic consequences. Similarly, you need to make sure that your company's financial dashboard is giving you timely data. From there, you can start operating your company and navigating its journey based on where you are and what the current conditions are.

We can start this process by looking at year-over-year sales. For example, if it's the start of June 2023, you can now compare May 2023 to May 2022. But you need to dig deep. Let's say you have a dental business. What were your drivers of success? Maybe your revenue has stayed the same, but your per-person revenue has gone way up, and your labor costs have gone down. There are, in other words, many different indicators to look at, in addition to sales. You need to look at revenue per customer, or in this case, revenue per patient. And if your company relies on advertising, you need to look at ad spend over a ninety-day or six-month period. What have you done, not over the past month but also over the past nintey days or 6 months, to understand and maximize your return on your ad spend?

Now we should look at any tough-to-calculate costs. Using a hair salon as an example, we'll say that the true cost of coloring a client's hair may be difficult to discern. But can we figure out how many colorings we had in a month? How much are we spending? Is our pricing appropriate?

My point is that many of the metrics you need will be custom indicators and not something you can just pop out with QuickBooks or Fathom. You have to really consider your company's different levers and measure the effects of moving them. Much of this will be outside of typical financial reports (such as a profit and loss statement). This is not one-sizefits-all accounting. You're driving your car, using the dashboard to figure out what adjustments you need to make to improve that car's performance so it will take you where you want to go. Like your actual car does, your company is serving you. You're not part of the car, and the car isn't in charge. You're in the driver's seat. That's the role of a true CEO.

So, in real-world terms, what should your dashboard look like? There are two parts to this. First, you need graphic representations of your data in the form of charts and graphs so you can quickly compare where you were to where you are today and spot trends. This will include sales commissions, payroll, bonuses, cash flow, your debt-to-equity ratio, and your equity (which has tax implications).

Second, you need to track your goals. If you have an emergency fund goal of $200,000, for example, how close are you to reaching that goal? If you have a profit margin goal—perhaps you want to pull 30 percent—how close are you to reaching that goal? Use your dashboard to track your progress toward your goals and to clarify them, and when you set up your dashboard, consider new goals you might want to have, such as a bonus pool for incentivizing sales and rewarding key performers.

The setup process discussed in this chapter is critically important for building wealth, which we'll look at closely in the next three chapters. First, we'll look at using your business to grow your personal wealth, then we'll focus on growing your company revenues and profit drivers, and we'll close our discussion of wealth with a chapter on leveraging tax advantages.

"Wealth is the ability to experience life fully."

– HENRY DAVID THOREAU

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