



**ESBA**

FINANCIAL STEWARDSHIP  
AND PLANNING

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My number one takeaway from this video

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# EXAMINE YOUR ROOT SYSTEM

Good financial management is part of the foundation of a successful business. As your Brand grows, your business will grow as well, increasing income but also increasing opportunity. The more financial resources you have, the faster you can scale.

For some, there is no need to wait for financial resources. But while the resources exist, there's a lack of vision for where to build, grow or invest or how to do these things. And both groups (the haves and the have nots) can share a big problem: bad financial roots.

Strong roots can do two things: they can be invasive and uproot / destroy what's around them or they can support not only what's above them but bring life to what's around them. Think about it: trees can provide shade which cools, branches that house or bear fruit, leaves that collect water and they can drop seed as well, fertilizing new ground and new growth. When your financial mindset is rooted in good soil, growth not only happens for you but for others as well but in bad soil (family history, lack, loss, bad influences or poor management), the roots are unhealthy due to their environment.

## FINANCES THAT REQUIRE EXCAVATION

Most of the financial problems that kill a business are rooted in bad personal financial decisions or management. However, they're also rooted in historical influences as well, including familial, societal, cultural and emotional. The most common categories of bad personal financial roots include

- ❑ **Poverty:** A constant lack of resources and opportunities so profound that it dictates every single decision and limits the possibility of change.

- ❑ *Stewardship*: Bad or mismanagement of what is had. A failure to use what is currently available and the small, leftover pieces as well<sup>1</sup>.
- ❑ *Susceptibility to wrong influence*: If the saying is true that you become like the 5 people you spend the most time with, then your finances become like theirs as well. This can be the influence of those who would demand purchases as proof of affection<sup>2</sup> to those who would not support your goals because there's always tomorrow, for example.
- ❑ *Soul wounds*: The influence of those who've declared your lack of value to the extent that you either agree with their assessment or it fuels your work. Either one sets you up for failure.

In other words, your financial decision-making may be rooted in growing up in poverty so deep that you now make sure you always have plenty, which can lead to hoarding. Or you may have a relationship where love is measured by the amount of money you spend, instead of mutually-set goals, leading to resentment. Or financial decision-making may come from a desire to be viewed as more wealthy than you are, leading to overspending.

## DEBT KILLS EVERYTHING

Have you ever owed someone money? Not like a mortgage or car payment but money to a friend or family member or for a large, extravagant purchase on a credit card? Every single time you saw the friend, did you think of what you owed? Or every time you looked at your big shiny purchase did you think about the credit card bill you hadn't paid?

Debt is a thief. It steals your peace, money, relationships and future. Debt demands that every single hour of work you do for the next 3, 5 or 15 years is already spent toward something else. So it also steals your freedom of choice.

If you have debt that keeps you tied to something or someone, keeps you anxious or stressed and is stealing your life from you, it's time to get rid of it. Debt often falls into one of two categories:

<sup>1</sup> The influence of poverty on a 'live for today only' mentality is well-documented, especially in the poorest regions of the world. This escalates the 'get mine' mentality that lends itself to greed, violence, fear and diminishes hope for trade based on lack of safety in any realm (e.g., psychologically, emotionally, physically).

<sup>2</sup> This is different than being in a relationship with someone whose love language is that of gifts. The difference is the influence of love expressed versus proof demanded.

- ❑ **Bad debt:** Debt that costs you considerable in finance charges or emotional stress, such as high-interest credit cards.
- ❑ **Good debt:** Debt that carries a low risk and / or increased your portfolio, such as low-interest house payments.

Your use of either debt is typically influenced by the level of risk that you're willing to assume. Risk tolerance is the willingness to carry debt for a certain period of time to achieve a particular goal. An example of this would be the willingness to charge a \$2500 computer on your credit card because you need the computer to generate income as a graphic designer.

Risk aversion is the desire to avoid debt at all costs, even costing you high potential return on investment (ROI) on a certain type of bet. For example, you may hear about the opportunity to invest in a new type of currency and the buy-in is \$5000 but there's no real guarantee. You'll avoid the opportunity because it wasn't worth the risk.

## Debt kills relationships

There is a third category that should be mentioned: spousal risk tolerance or aversion. Oftentimes, spouses tend to have an opposite personality around debt or risk. Entrepreneurs tend to be more willing to carry risk and debt but should such work be a stressor to your spouse, ignoring their worries or adding to them by refusal to ditch the debt will only multiply your problems in finances and relationship.

If you can simply write a check and make the debt disappear, then some might not consider that money owed as debt. But if it harms your relationship, ditch it. Consider your spouse's personality and the temperature of your home

## Debt preys on your mind and emotions

The American Psychological Association says that 72% of people report being stressed from finances. If 75% of Americans are in debt, then 3 out of 4 people suffer from stress and may experience lack of energy, headaches, stomach problems, chest pains, fear, illness and more!

Debt is most often sourced in lack, shame, fear or desire. Think about your own reasons for having debt<sup>3</sup>. Why did you end up in debt to start with? Common reasons include

- ☐ **Pride:** The desire to look successful or have people admire you.
- ☐ **Insecurity (a lack of security):** The failure to secure your domain, to put the necessary processes and procedures in place, which leads to a lack of transparency.
- ☐ **Failure to plan:** The pursuit of good or trendy things instead of steadfast investment in great, high ROI business ideas.
- ☐ **Greed :** The presence of debt is merely a symptom of the problem; it's presence indicates there is a root issue underneath, such as a
  - ☐ Lack of knowledge
  - ☐ Lack of planning
  - ☐ Lack of understanding

## Debt kills dreams

If you see a great deal on a new refrigerator that is normally \$2400 but is on clearance for \$1800, which scenario is true?

- ☐ You saved \$600
- ☐ You spent \$1800

When you own money for something to someone else, your time and lifestyle and finances are not your own. It means you must place everything you dream of doing or would like to provide on hold until the debt is paid off.

<sup>3</sup> There are some very legitimate reasons for debt, even if they came from bad choices or lack of financial planning or education. Healthcare debt, school debt and inherited debt are just a few of these reasons.



# PULL OUT THE ROOTS

You cannot change your past or past influences but you can change your present and future and how you're influenced by the past. If you're not sure how to balance a checkbook or live on a budget, a great resource is [this book](#). The principles highlighted in that book will teach you about thriving on a budget.

## No shame in having debt

Consider the statistics: the average American with credit card debt has an average of 10 credit cards. This person, on average, pays \$7000-\$10,000 / year in credit card interest. If you have debt, then you should realize that (a) you're definitely not alone but rather the majority (remember the 75%?) and (b) debt is a tangible thing that can be addressed and removed. Debt doesn't have feelings and you should not let it affect yours either. It's time to get rid of it.

## Know your balance

Before you can begin growing a large business, you must understand the numbers. If you cannot run a simple household budget with a guaranteed paycheck, you will not be able to run a business that comes without any guarantees<sup>4</sup>. Even if you plan to hire another person to do your accounting, you will always need to know your business balance.

The core component of business finance is understanding basic profit and loss. This is why finances, although a core part of your foundation, are part of the excavation process. Before you can build a financial empire, you should have good understanding of basic accounting:

- ☐ What comes in / deposits
- ☐ What goes out / withdrawals or expenditures
- ☐ What assets are to your benefit
- ☐ What assets are to your detriment

<sup>4</sup> You can see why addressing your emotional responses to the symptoms of your roots is essential to growth. Entrepreneurship is emotional; don't let the wrong things influence you.

Understanding the difference between cash *flow* and *profit* is very important to the success of your business.

## Know your taxes

A more comprehensive breakdown of tax rates (State and Federal) as well as scheduled payment requirements and dates is explored under the “Taxes” download later in the course. But you should still know the basic tax rates for business so that can make proper calculations:

- ☐ Social security 12.4%
- ☐ Medicare 2.9%
- ☐ Federal income taxes 15%
- ☐ State income taxes \_\_\_\_\_
- ☐ Sales tax rate (if applicable) \_\_\_\_\_

## Know your accounting

Accounting software is covered in the ‘Taxes’ download. Setting up a bank account should not be done until you’ve established your legal entity. Those steps, including the banking component, are covered in the ‘Securing structure, name and domain’ download. However, when you do set up your account, you’ll want to have the following accounts, at a minimum<sup>5</sup>:

- ☐ Business checking account (income)
- ☐ Business savings account (future expenses)
- ☐ Business tax account (self-employment and IRS, sales tax, income tax)
- ☐ Business operating expenses account

<sup>5</sup> The single most influential book on entrepreneurial finances for GFT and ESBA: [Profit First](#).

# FINANCES THAT CREATE A SOLID FOUNDATION

When entrepreneurs create their financial forecast and begin working toward their financial goals, they're putting the necessary protections in place to grow the business. Those necessary financial protections include (a) avoiding debt and (b) avoiding 50/50 partnerships. This is because each makes you dependent on someone or something else and they remove the freedom of decision-making from you. Statistically, partnerships are significantly less likely to even make it to 10 years in business.

## Put protection in place

Before you start laying a solid foundation, you'll want to reinforce your foundation with 6 layers of protection. These six areas are as follows:

1. **Vision:** Your mission and vision and values are one component of this. However, another component is that of the faith, drive and perseverance it requires to achieve the vision.
2. **Health:** Without health (physical, mental, emotional, spiritual) you are building an unsustainable business. When you're out of balance, as David references in the training video, you begin making a series of poor decisions whereas when you choose to implement the keystone habit<sup>6</sup> of exercise, you create a network of good decisions.
3. **Relationships:** Success begins at home. The most obvious relationships you should protect are your marriage and children. However, other relationships are vital, including friendships, physical / mental / spiritual accountability and business mentorships or groups.
4. **Finances:**
  - a. Keep an emergency savings fund of at least 6-12 months of expenses for your personal life and business. This should be liquid savings, meaning you can access the money quickly and easily.

<sup>6</sup> [The power of habit: Why we do what we do in life and business by Charles Duhigg](#) and [Influencer: The power to change anything by McGraw-Hill](#)

- b. Know where you stand financially (either through software or bookkeeping). Have statements and cancelled checks come to your personal home for your personal review each month before they go to the office. This helps prevent things like embezzlement.
- 5. Insurance: Insurance<sup>7</sup> is an often-overlooked component of protection is one of the most inexpensive but last lines of defense in certain scenarios. Insurance can help protect you from lawsuits, disability, financial crashes, and more. Types of insurance include:
  - a. Umbrella insurance
  - b. Term life insurance
  - c. Disability insurance
  - d. General liability insurance
  - e. Home and auto insurance
  - f. Professional liability insurance
  - g. Health insurance
- 6. Team: Have you ever heard the saying, there is strength in numbers? This is especially true in your business. Your team should include
  - a. Certified professional accountant (CPA)
  - b. A certified financial planner
  - c. Legal counsel
  - d. Insurance agent who understands entrepreneurship

These layers bring accountability and help hold our foundation to exactly where it's being laid while supporting the growth that will come as you construct your business and scale it.

<sup>7</sup> Most of these policies will cost you less than \$20 / month.

# REINFORCE THE FOUNDATION

You've probably often heard *comparison is the thief of joy*. This theme is very true in the area of finances. And the antidote to comparison is contentment. Learn to be content with what you already have. Those root desires, if not corrected, only grow and are never satisfied. The greed, pride and insecurity will only get larger as your income and influence grow. If you cannot be content now, you'll continue to have a growing problem beneath the surface that could cost you everything later.

## Roots that lead to fruits

Business growth from healthy soil and deep root systems can produce a change that lasts for generations to come:

'The Man Who Planted Trees' by French author Jean Giono<sup>8</sup> (1953)

It is 1913 when a young man is undertaking a lone hiking trip through Provence, France, and into the Alps, enjoying the relatively unspoiled wilderness.

The narrator runs out of water in a treeless, desolate valley where only wild lavender grows and there is no trace of civilization except old, empty crumbling buildings. The narrator finds only a dried-up well, but is saved by a middle-aged shepherd who takes him to a spring he knows of.

Curious about this man and why he has chosen such a lonely life, the narrator stays with him for a time. The shepherd, after being widowed, has decided to restore the ruined landscape of the isolated and largely abandoned valley by single-handedly cultivating a forest, tree by tree. The shepherd, Elzéard Bouffier, makes holes in the ground with his curling pole and drops into the holes acorns that he has collected from many miles away.

The narrator leaves the shepherd and returns home, and later fights in the First World War. In 1920, shell-shocked and depressed after the war, the man returns.

<sup>8</sup> [An overview.](#)

He is surprised to see young saplings of all forms taking root in the valley, and new streams running through it where the shepherd has made dams higher up in the mountain. The narrator makes a full recovery in the peace and beauty of the regrowing valley, and continues to visit Bouffier every year.

Over four decades, Bouffier continues to plant trees, and the valley is turned into a kind of Garden of Eden. By the end of the story, the valley is vibrant with life and is peacefully settled [and] more than 10,000 people move there, all of them unknowingly owing their happiness to Bouffier.

When you serve others with your skills, talents and business, you'll grow and attract more growth. Like the tree planter, Bouffier, you can create influence well beyond your own business, family or generation.

## SET YOUR FOUNDATION

Building freedom in your business<sup>9</sup> requires you to stay cash-flow positive, including understanding finances and budgeting as well as building an emergency fund and support team. When you understand your own personal finances, you'll be able to understand business finances, including the cost to obtain customers versus the lifetime value of what they'll spend with you. You'll need this information in later work as you learn about Facebook ads and value ladders in your business.

### Determine your goals

Vision

<sup>9</sup> Additional finance tracking downloads are included later in the course as your business scales.

## Health

## Relationships

## Finances

## Set your team

Note: the following recommendations are recommended from trust, experience and relationship.

Legal: \_\_\_\_\_

Financial: \_\_\_\_\_

Insurance: \_\_\_\_\_

CPA: \_\_\_\_\_

Personal / mentor / spouse: \_\_\_\_\_

## Know your debt

Personal debt (e.g., child support payments) \_\_\_\_\_

Credit card debt \_\_\_\_\_



**Mortgage**

**Car payments**

**Medical**

## Student loans

## Business debt

# CALCULATE A BREAK-EVEN ANALYSIS

Taking what you owe in total, calculate a break-even analysis for home and business. This is especially important if your business will be the sole income for the home. A break-even analysis tells you at what point / income you will 'break even' for what you've invested or owe. This is all an educated guess at best (based on the market research you've done or are doing).

Fixed costs: Also called overhead, these expenses are always present in business: rent<sup>10</sup>, insurance, utilities, supplies.

A. Sales revenue: The gross (total, before taxes or expenses) income from sales you expect to make. You can break this down monthly or annually.

B. Average gross profit per sale: The money left after expenses.

C. Sale price \_\_\_\_\_ - wholesale / direct cost \_\_\_\_\_ = \_\_\_\_\_ profit

D. Average gross profit percentage: The percentage of each incoming dollar that is gross profit. Gross profit \_\_\_\_\_ ÷ average sale price \_\_\_\_\_ = \_\_\_\_\_ %

Break-even analysis:

Est. fixed costs (A) \_\_\_\_\_ ÷ by Gross profit % (D) \_\_\_\_\_ = \_\_\_\_\_ Break-even

The point of breaking even will pay for the fixed costs (A) and the gross profit (C); does not include salary or profit.

<sup>10</sup> Working from a home office is one way to deduct a portion of your expenses for taxes and to save money on expenses. However, there are some drawbacks to this. Talk to your CPA.



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