Introduction to Module 3:
E-Myth Money Fundamentals

Controlling Your Money

"The gratification of wealth is not found in mere possession or in lavish expenditure, but in its wise application."

- Miguel de Cervantes, writer and novelist

Like it or not, money is a subject that seems to be ever-present in the mind of the business owner. We talk about it, we think about it, we worry about it. We plan for what we’ll do when we have plenty of it, and we reveal our fears, frustrations, and resourcefulness when we don’t have enough of it.

Why is it then, with all this energy around money, so few of us ever seem to have it really handled? What is it about money that is so elusive, so complicated, so difficult to control?

Module 3: E-Myth Money Fundamentals, will show you that money doesn’t have to be elusive, complicated, or difficult to control! All you need is a commitment to two simple things: (1) understanding the relationship between money and your business activities and (2) creating and implementing, on a regular, ongoing basis, a few straightforward money management tools and strategies.

Your Business Is More than a Money Machine

Some people view business in purely financial terms: business is nothing more than a way to create money. Everything else is superfluous. This approach can work, but it’s a very limiting way of doing business. It squeezes the joy out of being a business owner.

Some people are intimidated by the financial side of business and, therefore, avoid financial management. “As long as the bills get paid, I don’t worry about finances,” is their casual disclaimer. This approach may work temporarily, but is also limiting because it ignores the great potential that lies within the business.

Each view by itself is shortsighted. Both approaches leave something of value out of the business equation. And both diminish the chances of achieving your Strategic Objective.

Business is about making your life better, not merely paying the bills. The financial view of your business – as long as it’s not your only view – is an essential element of your management.
arsenal. The pursuit of money, when balanced with the other aspects of your life on the way to achieving your Primary Aim, is appropriate and should be one of your most important business objectives. In other words, always keep in mind that a successful business is one that fuels the path toward your Primary Aim. And the financial strength of your business is a key component to its success.

Money in Your Business is Value, Fuel, and Quantification

The value of any business is measured in monetary terms. That’s not to say the only value of your business is its monetary value – intangibles such as personal satisfaction, freedom, life-style, contribution to society, and prominence in the business community all add to the perception of your business’ value – but the primary measure of the value of your business is its monetary value.

Money is the indispensable fuel that powers your business. Everything your business does either uses or generates money in one form or another. If over the long haul your business uses more money than it generates, then you don’t have a business at all – at least not for long.

The E-Myth Point of View tells us that quantification is essential for business owners to know what results their businesses are producing. Understanding the monetary impact of what your business does is one of the best methods of quantification at your disposal. Since almost everything your business does directly or indirectly involves money, your business is already quantifying itself for you. All you have to do is capture the financial information, make sense of it, and use it to manage your business.

Let’s look more closely at this idea of quantification.

Getting Your Financial House in Order –
Why You Need a Financial Management System

In order to manage anything – a business, a government, a family, an athletic team – you need systems for observing what’s going on, for understanding what you observe, for making decisions about it, and for implementing your decisions. The concept of financial management is just that simple.

For your business, the idea works like this: Your normal business activities – whatever they are, whatever the size of your business, whatever industry you’re in, and whatever your location – are your source of information. The idea is to capture the informa-
tion you need, organize it, put it into a form that shows you exactly what is happening in your business, and then use it to make decisions to improve. It's a continuous cycle of improvement, as the diagram below illustrates.

If we expand on the basic idea, recognizing that there are two kinds of quantification, operational and financial, the beginnings of your financial management system become visible.

Operational quantification is the measurement of the non-financial operations in your business. While almost everything your business does has financial implications, there are any number of business activities you will want to quantify in non-dollar terms (e.g., unit sales, man-hours of work, numbers of items in inventory). Operational quantification will be addressed in later modules. Our focus of attention here is on the financial side of your business.

Financial quantification is the collection, organization, and analysis of information about everything in your business that can be measured in dollars. Financial information is collected by tapping into the flow of information that arises in the normal
course of business – invoices, purchase orders, cash register tapes, bank deposits, lease payments – anything that captures the movement of money into, out of, and within your business. This information is organized and stored in your accounting system. It is made useful and understandable by generating various types of financial statements and management reports. All this financial quantification is the basis of your “financial management system.”

**Remember, Your Accountant Works for YOU**

It’s important for you to look at the money aspects of your business as an owner and as a manager, but not as an accountant. That doesn’t diminish the importance of an accountant in your life, especially since you can’t ignore the tax and regulatory standards with which your business is expected to comply. Nevertheless, it’s critical to remember that your financial systems exist *primarily as a management tool*, and secondarily for tax and regulatory purposes.

For businesses large and small, accounting expertise is indispensable. Not merely useful, *indispensable*. Listen carefully to your accountant’s advice, but don’t be afraid to ask your accountant to answer any questions you have and to explain in detail options that are available to you. Remember, your accountant works for you.

You are the ultimate decision maker for your business. This is an important point. It’s surprising how many small business owners abdicate financial decision making to their accountants because they dislike or are intimidated by “that whole finance thing.” You can and should be the driving force behind the financial decisions and outcomes of your business, with your accountant as your advisor. This is a collaboration that will give you the results you want.

**What Are the Components of Your Financial Management System?**

Let’s expand our diagram and focus on the financial side of the business so we can get an overview of what’s needed for your financial management system. It starts with your basic business activities. They should generate documents and information that are collected and organized in an accounting system. Your “control systems” are the processes you put in place to capture this information. The accounting information is then used to generate a variety of “reports,” each of which has a specific manage-
ment purpose. These reports, augmented by your personal observations, feed into your decision making process. Your decisions shape the way you manage (orchestrate) and improve (innovate) your business.

You can see how the financial management process is an integral part of the business development cycle of Innovation, Quantification, and Orchestration.

**Overview of the Financial Management Process**

Module 3: E-Myth Money Fundamentals, a series of six business development processes, shows you how to create or improve your financial management system in a way that takes the mystery out of the financial dynamics of your business. It won’t teach you how to be an accountant, but it will teach you how to understand the information and advice you get from your accountant, and how to use your accountant to make better business decisions. It also won’t make you into a professional financial analyst, but it will show you how to capture, understand, and use the everyday information your company generates to make sound financial decisions.

Most importantly, getting your financial house in order, knowing that you have the ability and the tools to control your money, seeing your money for what it really is, no more and no less, will set you squarely on the path toward the realization of your Strategic Objective and your Primary Aim. Isn’t that what it’s all about?