



Episode 12:

Creating a Small Business Financial Blueprint

[A transcript of this episode.](#)

Welcome to the Professional Website Investors podcast, the show where we talk about what it takes to successfully buy operate, scale and sell a thriving e-commerce business. When it comes to doing business online, we believe that buying an existing website is far superior to building one from scratch. So if you're a career professional who is looking to become an e-commerce store owner, listening to this show will give you the knowledge, tools, and community support you need to be successful.

I'm your host Ryan Cowden, and this week we're joined by Ian Bond from professionalwebsiteinvestors.com. In this episode of the Professional Website Investor podcast, Ian and I discuss how to set up a solid financial structure for your online business. By the time you set up your first small business, you've probably already had some experience with budgeting. On some level. We all have to manage our personal finances, accounting for income and expenses on a monthly basis. The idea of budgeting and finances is not entirely new, but maybe new, however, is setting up a financial structure for a new business.

In addition to figuring out how your new revenue and expense streams will work, you also need to figure out how your business and personal finances will interact. On today's episode, you'll learn why it's important to separate your personal finances from your business finances, and you'll hear Ian's recommendation for setting up an LLC. In order to accomplish this.

We'll talk about some of the expenses that you might have running a small business which include investments in yourself. Ian will share some special financial considerations that apply to running a physical goods e-commerce store, including how to outsource work to experts in virtual assistance. Then we'll talk about how to account for returns and damages and we're going to focus this part of the conversation on logistics and establishing good relationships with your suppliers and your customers.

Finally we'll talk about some of Ian's advice on how to stay organized with all of this work. If you are in need of some financial reorganization or peace, then this is one episode you won't want to miss. There's a lot of actionable advice in this episode, so grab something to write with because you're going to want to take notes. As always. I'll be back on the other side to wrap up any loose ends.

RYAN: So without any further ado, here's my conversation with Ian Bond. All right, Ian, welcome back to the show. It's been a while. How you doing, man?

IAN: Ryan, it's great. It's good to see you. You're embedded there in Oxford. I mean, it's almost intimidating to talk to someone with your academic background.

RYAN: We're very academic today. We're very global ... We're international today, aren't we?

IAN: Yes, more than ... Look, it's amazing. The world is so networked in, doesn't matter where anybody is. We run our business from vacations, holidays, business trips. It really doesn't matter where you are. No one knows, as long as you have a phone, you've got global connectivity to a global pool of outsource workers you can basically accomplish almost anything.

RYAN: Right? Well, we're talking about small business finances today. Finances it's not the exciting part of starting a business. It's usually the nerve wracking part, but I'm excited to dive in.

IAN: Maybe not the sexiest thing that you're going to think about but you ... Once you get close to taking a call, you want to buy a website, you'll want to have a framework and I actually think you can start earlier than that. We'll dive in. You take the lead.

RYAN: Okay, sure. Yeah. Well I'd like to start off because I feel like most people getting into small business, their experience with budgeting is going to be working with their own personal finances and their own personal budget. I guess, what's the biggest transition you have to make when you're setting up a business budget. What's the biggest difference between a business budget versus a personal financial budget?

IAN: Okay, let's start with the premise if you will, that you're a beginner and you're listening to this podcast because you are thinking about website investing and you want to get involved. Presumably if you're further along than that, you may already have had some kind of a construct. How should you think about becoming a business owner or entrepreneur from the standpoint of budgeting, financial planning, and what to expect.

First thing I always advise people to think about is whatever money that you have allotted to investing in a website, don't spend it all on the website. You need to keep a cushion. You need to keep a reserve. I'll come back to this point in a minute, but it's really critical. It's stressful enough being tossed the keys figuratively to a website and plunging into operating a revenue producing website where you spent a lot of money and it's nerve wracking enough. You'd need to have a financial cushion.

When you are starting to think about this, the first thing I tell people with regards to the planning is I strongly suggest that if you're a career professional and you have an income that you separate your business and your personal financials, and I actually tell people to early on go out and set up an LLC that you conduct your business activities through.

I do this for a couple of reasons. First of all, it's not that expensive. People will naturally object to this and say, look, that you're over architecting something that you needn't do. I'm going to rebuff that in two ways. Number one, I think it professionalizes your approach. Okay? You hold yourself accountable to the ROI you spend on that money. You're not just doing this

from what's left in the checking account after the family's bills are paid, number one.

Number two, you've got tax advantages, right? My career goes back to the eighties when the tax law was different, income taxes were incredibly high and Wall Street was selling people tax shelters and doctors and lawyers and high income people were investing in these arcane things in order to lower their income taxes and the assets that they were owning, produced capital gains, which is taxed at a lower rate.

That strategy of differing current income at a high rate and converting it to a lower rate tax capital gains rate, it's called deferral and conversion. You can do that today by adopting the structure I talked about. For example, if you set up an LLC and you intend to invest through that LLC, and I'm not an accountant, talk to your accountant. I'm sure that he'll tell you ... he or she will tell you the same thing, that the money that you invest through the LLC will be deductible at limits that are much higher than if you did it through your personal ... through your own name.

Businesses, you can take business income and offset, particularly if you generate a loss and you're just doing this at the beginning, you can offset income and obviously pay lower taxes. There's no free money, you're spending money. You're just spending money that you would've paid in taxes normally.

That's a very positive construct for someone who's already an income earner in terms of you ultimately, hopefully, generating a capital gain that will be taxed at a lower rate, but also being able to invest in yourself using after tax dollars because you can deduct that relative to your income. But I think, and even if you don't do that, the crux of the argument is treat this like a business the way you approach it and don't just think of it as a rounding error at the end of the month. If you buy a course or something. Think of the ROI that you're going to get, the money that you spent.

RYAN: Right. When you talk about setting up an LLC, are you talking about just one overarching LLC for all of your website investments or are you setting up a different one for each website that you purchase?

IAN: Well, I mean at the beginning, before you do anything, just set up one LLC and I think after things become more complicated, you can determine how many LLCs you might need. I think you can get ... You can start to get fairly complex. We have run a large number of websites through one LLC without any real problem and there's no real reason to ... There are some liability reasons that we can talk about and ultimately you can separate things when you have a raging success on your hand, but there's no reason to do that from the beginning.

Just one LLC. Most states you can do it online. You can basically look at your LLC bank account statement on the same app as your personal banking and your accountant shouldn't charge you a whole ton of money to set up a limited liability company.

RYAN: Okay. When you set up the LLC, are you setting up a bank account, a separate bank account for the LLC?

IAN: Yes.

RYAN: Okay.

IAN: Absolutely, yes. You're setting up a separate bank account. All you need is a checking account. You can use a debit card, you can use PayPal that is linked to that. Then when you do buy something, it keeps track of that separately and then you're accountable to use that. You shouldn't be approaching it casual. You should be thinking and ultimately that's where you will have ... That LLC will be the owner that you operate your first of hopefully many investments through.

RYAN: Okay. Do you set up a hard wall between your LLC bank account and your personal finances, or do you transfer money back and forth between those two accounts? What does that look like for you?

RYAN: The reality is, it depends where you are. We're constantly investing in our businesses and so we're constantly transferring money to invest more money in our businesses. There are times where the business is generating excess cash and we don't contribute more. There are times where we do contribute more, occasionally we have to take money out to pay ourselves

for some reason but I'm a big believer in what I just said, which is to try to utilize the opportunity, leverage off of my corporate income to build assets that are going to be revenue producing long after my corporate income disappears. That's the view we take.

RYAN: Great. Well, let's talk about what that budget looks like then. Once you get the LLC set up in the bank account, what are some things that your small business budget should include?

IAN: I think the major ... Let me come at this a little bit different way. When I think about the advantage of buying a website as opposed to building a website is that you have ... Pretty much you're not coming at something from a position of having a total unknown. You have a functioning website where you can pretty much look generally over the last couple of years and look at what the cash flows look like.

You should have a fairly good financial budget and financial expectations. If you've kept the cushion, that I suggested that you keep, you should feel pretty good. After a period of time you should get a little bit comfortable in terms of how the site is progressing, what you're experiencing and any kind of unusual expenses.

Over some period of time you're going to see opportunities. Rule one, number one that I have is invest in yourself and I want people to continue to invest in themselves after they purchase a website. You will change how you invest in yourself from pre website purchase to post website purchase. You will have things that you're going to invest in that are probably more technical and more specific than when you're in the information gathering phase.

It's going to continue to be books, courses, seminars, coaching that you're going to purchase. You'll be doing that pre website purchase but still be doing that post website purchase, you probably just change the level of technical expertise you'll get. I can tell you that we've actually even put trips and run trips, family trips through our LLC.

We might go visit a supplier on the trip and our accountant says, look, some part of that trip should be dedicated towards your business expense and

that's a wonderful way to not only meet a supplier, but have it be tax deductible. Again, it's not free money, but it's money that after taxes, make sense to invest.

Those are some of the things that you can do with this strategy that ... Particularly when you combine this with buying a website as opposed to building a website. You should have a fairly good feeling for how the website is performing and the final piece of this is after some period of time you've got excess cash that you want to invest and I have some thoughts on how you want to do that too.

RYAN: Okay, great. Here on this podcast, we really focus on focusing on the physical goods, e-commerce. What are some of the specific things you have to budget for when you're working in the physical goods?

IAN: Well, the basic activity chain and physical goods e-commerce is that there are supplier relations that have to be managed. There's website operations that have to be managed and there's customer service that has to be managed and you either do those things or you hire people to do those things. The margins in drop shipping and physical store commerce are eight to 15 or 16 percent or something like that. The great percent, the great bulk of the margins, excuse me, great bulk of the costs come from fulfilling customer orders.

The cost of the technology is not expensive. Whether you're on the Shopify platform, or the big commerce platform, that's not a big deal. If you're in expansion mode and you're hiring developers, that's something that's discretionary. You can upload product, you can hire people to do that.

Most people would outsource paid traffic. That's a fee that you're going to want to take on. I mentioned that once you've gotten to the point where you're comfortable, then you've got some flexibility to invest the cushion. The question is, how should you invest the cushion? My two suggestions for people that do get comfortable or once they get comfortable is first, once you're at this steady state, in this study state comfort zone, is to invest in and hire an outsource worker. That's my number one recommendation.

It's really a must to succeed. If you're a career professional, you're going to have to learn how to use talented people. You're going to start with experts. You're going to start with people that do pay track, you're going to have people that do technical things like web related stuff, product uploading. But really what you want to do is get out of the day to day stuff and hire a virtual assistant.

What you're going to do is create now a library of SOPs, (Standard Operating Procedures) and processes that someone can follow and that you are going to continue to revise and update. This is going to give you leverage on your time and you're going to go from being the owner manager to being the chairman, overseeing what's going on, or the chairman CEO as opposed to the CEO manager.

That would be the first thing that I would do, is to look at outsource workers, first very specialized, secondly, virtual assistants. Then finally, and I think this is something that will be later down the road, is to invest in the site itself specifically in content to make your site better. Make it more attractive for people who are visiting your site, where you can engage people, you can become a trusted authority and provide people with more information.

We have a session coming up in a couple of podcasts for now where we're going to talk specifically about how to invest in your website. We'll cover more things. Talk about that. Those are my high level thoughts.

RYAN: Okay, great. When you do work with physical goods and you're shipping them, there's that issue of how do you handle returns or damaged goods and how do you budget for that? What are your thoughts on that?

IAN: Every niche is different and every supplier is a little bit idiosyncratic and what you have to do, and it's when that you asked this because I think in many ways, we are as much a logistics enterprise as we are an e-commerce retailer. I'm stretching the point a little bit, but the things that we ship are big, heavy, 400 pound plus things that go from the port of Los Angeles to where the bulk of the population is, which is in the eastern two time zones. It's not a shoe box like Amazon delivers. It's logistic heavy and by the way, people believe that there's a way to expedite that. "Can I get expedited shipping?"

Well, you can't get expedited shipping on something that's 400 pounds. As a matter of fact. It ships LTL to a local freight terminal. At the freight terminal, it gets on a smaller truck. You have to arrange for delivery. There is a lot of touchpoints with the customer. What I think the crux of your question is, what happens if you have a return? There's returns for a couple of reasons. Number one, there's just buyer's remorse. For people that just say, "Well, this isn't what I wanted," obviously you would charge a fairly hefty fee that you'd have posted on your website that would embody the return shipping and restocking fee.

However, if something's damaged is generally covered for four or five days by the supplier. What we do is we have our VA's in constant contact during the shipping process to remind people to open and inspect the deliveries they get because if it's delivered on a Monday, you may have only the calendar week to report some kind of a damage in order to be under the shippers insurance.

Most customers don't realize that that's the reason that we're so adamant about inspecting what's delivered. Once it's outside the shippers insurance, you're in this gray zone. Most shippers will not ... Aren't too helpful once it's outside their insurance. That's on you. That's why we're so fastidious about following up with our customers.

This is why I say we're oftentimes, I think of us as much a logistics company, getting things to people in good order. Sometimes there's a part missing or sometimes there is a slight piece of damage and there's some bickering back and forth on maybe what we can do to make the buyer happy with a slight defect or how do we get them the spare part that's missing? There's a lot of that to keep people happy.

RYAN: My final question, you've got all these things going on in your budget, how do you stay organized? Do you have any tips on organization for us on our budgets?

IAN: Yes, I have more than we can cover in an answer to a question. It's a major ... Once your business reach at some level of sophistication, it can become a major issue because you have multiple strings in and out and lots going on with different suppliers, but you need to have ... First you need to

have a good order tracking system. You can do that with spreadsheets and we've built our monthly order spreadsheets and our roll ups are known expenses.

We've done that on spreadsheets, but there is an excellent integration that we've built using accounting software and our virtual assistance. Literally when we enter a purchase order with our suppliers it goes directly into the cloud and we update. I've been out there and I've said that we participate on the house platform. We actually update when things are shipped so that we actually know what our cash flows look like because it pays twice a month and we're very conscious of what our cash flow looks like and we track those.

We now have pretty much a straight through accounting system that can scale almost infinitely as long as the virtual assistance pay attention. A year ago, a year and a half ago, we had somebody that was tracking this manually and now we've virtually eliminated the need for that person to track that stuff. There are still some occasions where we get ... We have to track refunds from suppliers. That's a little bit of manual work, but it certainly isn't the work that it used to be 18 months ago.

RYAN: Okay, great. Ian that was great. Thank you so much. That was a lot of fun.

IAN: Look the prospect of buying a website can be daunting if you just keep in mind that you want to have a cushion when you buy something and if you're serious and you're treat it like a business from the get go as a career professional, if you have an income you can use a couple of tax tricks to help ... for the cost and you'll be set to go and I think you can feel fairly comfortable about your approach. If you are serious about it, you get the right infrastructure then you start.

RYAN: Okay. All right. Thanks, Ian, well I guess we'll see you next week then.

IAN: Thank you, Ryan. Enjoy your Oxford.

RYAN: All right, thanks. All right folks there you have it. That wraps up my conversation with the Ian Bond of Professional Website Investors. He shared a ton of valuable insights and advice today on how to set up a trustworthy financial foundation for your online e-commerce business. We also shared some tools and resources which will all be linked up in the show notes at ProfessionalWebsiteInvestors.com.

I hope you enjoyed this conversation. Please consider subscribing, sharing with a friend or leaving us a review in your favorite podcast directory. Until next time, best of luck in all that you do, and we look forward to seeing you on the next episode of the professional website investor podcast.

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