

Small-business Savvy: Follow the Money

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If you read about or watch movies or TV shows about crime investigators or private detectives, you probably have heard the phrase, “follow the money.” The phrase became popular with “All the President’s Men,” the book and movie by Bob Woodward and Carl Bernstein, the Washington Post reporters who uncovered the details of the Watergate scandal, which led to the resignation of President Richard Nixon.

Today, this phrase remains valid for small-business owners who, when looking to succeed, need to “follow the money.”

Most business owners take this task seriously and record income and expenses so they can determine their profitability. They look at what part of the operation generates the greatest revenue and, likewise, where they spend the most money. They often make changes, across quarters and years, to ensure growth remains steady and that no one area is bouncing up or down.

But to get the most out of following the money, digging much deeper really is necessary.

Starting on the income side, you need to look at where your business generates the most money and who are the clients buying your products and services.

Once you have identified who is buying, you need to search for why they buy. From these two pieces of information, you perhaps can sell more to your existing markets as well as find new customers through marketing additional benefits that may appeal to others.

This research also may give you the information you need to move into new markets. And it may identify where your clients are hearing the messages about your business and your products and services.

On the expense side, your task is to dig deeper into the categories to see where you may have leaks, or money that is dripping away. However, that task can be very time-consuming, so the savvy small-business owner must balance his or her time against the potential savings.

When evaluating your expenses, you need to consider new ways of doing things. Might you benefit from implementing technological changes? Balance such changes against maintaining customer and employee goodwill.

Finally, when looking at expenses, be sure to consider how a line item expense relates or correlates to the income side of the equation. An obvious example here is marketing. It may seem like an overhead item that can be trimmed. But what might be the ramifications of reducing your marketing efforts?

Perhaps spending more money on certain marketing tools will increase revenue substantially. The same might be said for salaries, the cost of your location, technology, etc. You don't know what the best steps to take are unless you "follow the money."

You can't deny that "follow the money" is a great line for books and movies. Yet it also is very powerful when building a successful business.

For more help, visit our website, <https://www.ag.ndsu.edu/smallbusiness>, and sign up for the monthly newsletter.

More information is available at your local Extension office, as well as at <http://powerofbusiness.net> and <http://www.eXtension.org/entrepreneurship>.

The Small Business Administration and its related organizations, such as the Small Business Development Centers and Service Corps of Retired Executives, along with many other state agencies, also can be valuable resources.

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