

Small Business eBook Series



SIX STEPS TO SIX FIGURES

Your guide to building A \$100,000+ INCOME

Brought to you by

BH BookkeepersHub
Connecting Australia's bookkeepers with business

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INTRODUCTION

THE VERY BEGINNING

This is a step by step guide for a Bookkeeper to start their business with absolutely no fees and build it up to six figures, i.e. over \$ 100,000.

Where not going to tell you how long it will take, but we want you to build a long lasting business with good clientele. A business that will last.

If you want to reach an objective you should get there by building platforms. Imagine trying to get to the sixth floor of a building without first going through the downstairs entrance, then going up floor by floor to get to the sixth. Sure you can abseil down from the top (just kidding) or you can hire an extension ladder to go up the side (good luck).

A platform means that if you don't quite reach the fourth floor, all is not lost. You can recoup a bit on the third, before trying again. That's a lot easier than starting from the very ground, which is what happens when you fall off (or get pushed) off the ladder.

Let's get down to business.

You really want to be an independent contract bookkeeper?

Let's set some ground rules.

First is that you'll set a limit of **40 chargeable hours per week**. Sure we can all work 60 or 80, but you should realistically set a target of charging 40.

Second is that you leave out 4 weeks in the year. You realise 2 weeks is just for public holidays, and only two weeks for your vacation (Uncle Sam style). So your business model is based **on 48 weeks per year**.

That's it for the preamble. Let's start on the First Step.



THE FIRST STEP

Start slow, with a target of getting one job that will occupy for at least 4 hours per week. This might be half a day, or two lots of two hours. It is best to go for one block of four hours.

We want to give you a very honest view on how to start.

We think it's best to consider your start as a part time job. Don't be alarmed by this philosophy – we all started our working lives with a job. Somebody paid us for the work we did, and the money was based on the hours we worked.

Start slow, with a target of getting one job that will occupy for at least 4 hours per week. This might be half a day, or two lots of two hours. It is best to go for one block of four hours.

We're talking bookkeeping right?

You know there are over 2 million small businesses in this country, and every one of them needs something done.

Most small businesses are run by families, and in most family businesses, one family member cops the stress of doing the books. The short straw!

So you need to pitch to that person, not the one who's out having a good time. They won't appreciate your pitch.

You ask – so how do I do it – get that first part time job?

Look at your own family first.

Is anyone in business ? Good – your first target

Do they already employ a bookkeeper? Great – competition is good. Find out what they actually do, and make your own pitch. Is there something the existing bookkeeper is not doing? Add that to your offer.



Let me give you a big tip. Bookkeeping is about keeping the books (not just the numbers). It involves records, filing, designing proper work spaces, managing incoming calls, emails, SMS etc etc. Look for the extra things you can do to improve the life of

that family members who is saddled with the books! Make their lot better – that’s the value proposition.

BEFORE YOU GO TO THE SECOND STEP

Just to recap – we say book your first four hours a week by taking up a part time job.

In the second step we want you to go into the market and find another four hours, but this time as a contract bookkeeper.

Let’s think about this for a minute. You are leaving the comparative safety of having a job, and going to the cut and thrust contract market. Why would you bother – you ask? Well it’s all about the money. You can get a higher hourly rate as a contract bookkeeper. You will never ever get to six figures otherwise.

Your client will expect you to be experienced and qualified. Experience is something you can embellish a bit. You would get away with saying something like you’ve been keeping books for your own family business for five years (even though that might have involved watching Mum writing up a cash book, or going to the Bank with your Dad).

However if you say you are qualified, you better have a Cert III or preferable a Cert IV in Bookkeeping. About ten years ago, most clerical jobs would say that you need “experience” say in Payroll, Accounts Receivable or Accounts Payable, and the ads would mention popular software platforms that you had to know about. Since 2010 the requirements have shifted to having a Certificate IV, and this is courtesy of the Australian Taxation Office moving to set up a second tier of Tax Agents – the BAS Agent.

Let me give you a big tip. If you haven’t got a Cert IV in Bookkeeping – go and get one. Without one, you have no chance of ever being a BAS Agent, and you will never be able to honestly say to a prospect that you are qualified to be their bookkeeper.



THE SECOND STEP

This is what we want to you do.

Increase your job hours from four to eight.

And find another four hours, but this time as a contract bookkeeper.

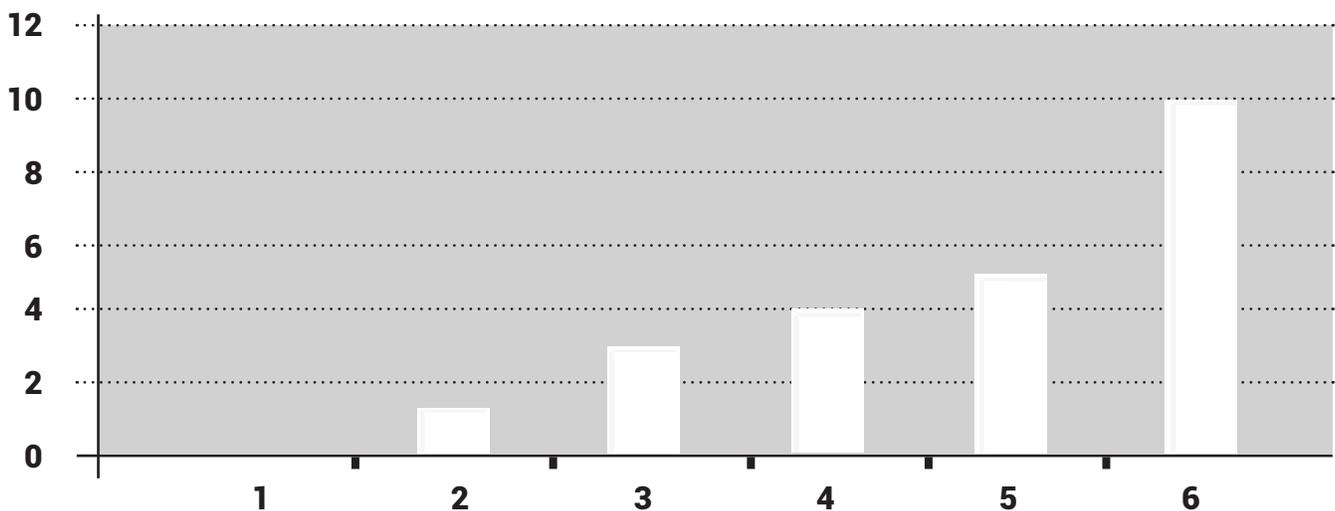
Increasing your job time? You can try where you are to get a full day's work, or a second half day. If the place where you are working won't do it, don't stress, start looking elsewhere.

Finding work as a contract bookkeeper is really a quantum leap. But remember the platforms and the sixth floor. Be confident that you can do something for that small business and look for situations where a family member is already doing the work.

Now we have good news and bad news. The bad news is that you must sell your hours at a higher rate than a job. The good news is that if you can achieve that higher rate, you are well on the way.



CONTRACTS



Frankly, when you are at the bottom of the totem pole, and trying to work your way up, you hit barriers all the way. It's not that the people higher up don't like you, it's just that they don't think you are worthy.



We deal a lot with people, and talk professions and hourly rates. Let me tell you there's nothing magical about it. If you are qualified and experienced you climb the ladder of hourly rates.

Owners of small business aren't fools. You have to provide the service that is needed, and if you give value, you get the reward. Of course if you sell yourself too cheap just to get your foot in the door- that could back fire.

Let me give you a big tip. When going for that first contract, identify what's to be done (for example prepare the accounts payable) and quote on how much you are going to charge, and approx. what time it will take. Instead of saying I will work for you for x hours and I want \$ y/hour, you say I want \$ xy. However reserve the right to vary this after a few weeks, if the job is taking much longer than planned (or the owner said it would – owners do fib sometimes!).

An owner would respect your tenacity if you put up with taking extra time to get on top of the job. Don't be greedy – be prepared to take a few hits early on.

THE SECOND STEP – HOURLY RATES – WHAT IS VALUE?

Let's look at hourly rates, because it's implicit in your quest for six figures that you understand how the world sees you in your quest.

We humans are very strange indeed. Let me tell you a true story. I have a colleague who is a successful lawyer charging \$ 350/ hour. He told me that he'd given up his "boot camp" personal training sessions because "the guy was ripping me off by charging \$ 35/hour". Go figure!

Frankly, when you are at the bottom of the totem pole, and trying to work your way up, you hit barriers all the way. It's not that the people higher up don't like you, it's just that they don't think you are worthy.

Every profession has its totem poles. In Engineering, the draftsman is valued at less than the engineer. In the Hospitals, the nurses are valued at less than the Doctors, and they are valued at less than the Specialists. In the financial services industry the bookkeepers are valued at less than the accountants, and within accounting you have the separation of suburban firms versus city firms.

Again, another solicitor told me, in all sincerity, that there were only two kinds of law firms, those in the suburbs and those in the CBD!

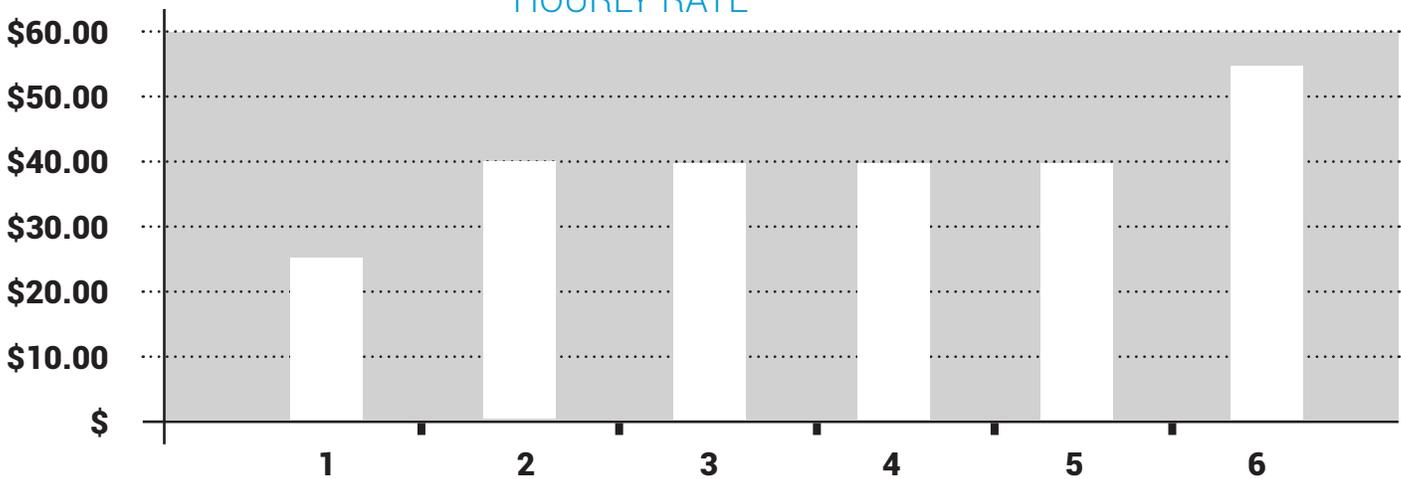
What can we make of all this nonsense? I wish there was a simple answer.

The bookkeeping profession is undervalued. It explains, I think, why so many small businesses fail. And remember every failure affects suppliers and other contractors who don't get paid. This is a very serious problem.

If you studied the law of supply and demand, you would know if demand exceeds supply, then prices should go up. Houston – we have a problem. With over 2 million small businesses and around only 40,000 qualified bookkeepers, there are over 50 businesses per bookkeeper. Something is wrong, because each bookkeeper averages only 10 clients!



HOURLY RATE



There is a Buddhist saying which goes something like this. If you are embarking on a journey in difficult rocky terrain you have two choices to make your path easier. You can lay out in front of your path a great sheet of leather, thus smoothing out everything before you. Or you can wear sturdy leather sandals. Beautifully said – we can't change the world we live in but we can sure prepare ourselves for our journey!

Maybe the reason that we have some many unhealthy businesses is that 80% of them are not doing their books properly! And speaking of health, maybe the reason more than 50 percent of us are obese is that we don't value exercise enough!

\$ 35 per hour is far too much to pay to live another 10 years?

SECOND STEP - PERCEPTIONS

I read an article once where it said that a tradesman wearing a uniform, with the insignia sewn in on the shirt, would get more for a job than someone wearing causal gear. What about a financial planner in an Armani versus a suit from Lowes. Guess who would charge more?

There is something in this. However for the bookkeeper, the "uniform" is more about the way you look, the way you connect with the customer, the things you say, your ability to listen, and generally how you convey your ability.

Accountants have the reputation of being dull and boring. We like this – because they also have a reputation as being astute and dependable. People trust accountants – they beat all the other financial service providers in every survey ever done.

Let us give you – not a tip – but some motivational advice.

You are never going to change the perception in the small business world that doing the books is no big deal. It is not a friendly environment that you face when you are trying to convince someone to pay you what you think you are worth. Over 80% of small business owners think they can do it themselves.

Get your sandals organised for the third step.

THE THIRD STEP

Just to recap.

First step was a casual job for four hours per week. No contract work yet.

Second step was to double the casual hours to eight, and try to get four hours of contract work.

In the third step, you sit on the casual job hours, and go for another four hours of contract work. In case you are curious, we won't suggest ever increasing your job hours past the eight hours.

You may be wondering why the contract work is going up in multiples of four hours. That's easy to explain. We think that four hours is what you can sell to one new customer. Four hours per week becomes your benchmark when pitching to a small business.

So the third step is really one or two casual jobs, and three contract customers.

You also may be wondering whether you should specialise, i.e. look for customers in the same sort of business. This may happen by accident in that doing a good job for one family, means that they are likely to have friends in the same sort of business.

However, as a strategy, don't think about specialising so early in your quest to build a viable business. You never quite know where you will end up, and the variety of business experience you have becomes more valuable than you think.



THE FOURTH STEP

Just to recap.

First step was a casual job for four hours per week. No contract work yet.

Second step was to double the casual hours to eight, and try to get four hours of contract work.

Third step was to sit on eight casual job hours, and go for another eight hours of contract work. You are now charging out 12 hours as a contract bookkeeper to 3 separate businesses.

You can probably guess that the fourth step is same casual hours (eight) and another four hours of contract work. That translates into four customers.

Let's take stock. Your "job" is taking up 8 hours, and your four contracts are taking up 16 hours.

If you are in it for the money, which we hope you are, you should start smiling.

We're saving the full financial picture for later, but suppose you charge \$ 25/hours at your job, and \$ 40/hour for your contracts, you are making around \$ 840 per week ($8 * \$25 = \$ 200$) at the job plus \$ 640 on contracts ($16 * \$40 = \640).

You still have room to grow, because you are only using up 24 hours.

You may wonder whether you will ever reach six figures. At the moment you are on \$ 40,320 ($\$840 * 48$).



Alternatively you may be very happy to sit at this level. The reality of the demographics is that most professional bookkeepers are women in an age group of 30 to 50, and that means not all want to do more than 24 hours. Many can't do more than 3 equivalent days because of family commitments.

However please keep reading even if you are happy at this level.

THE FIFTH STEP

Just to recap.

First step was a casual job for four hours per week.

Second step was to double the casual hours to eight, and get four hours of contract work.

Third step was to sit on eight job hours, and go for another eight hours of contract work. You are then charging out 12 hours as a contract bookkeeper to 3 separate businesses.

Fourth step was to again sit on the eight job hours, and build to 16 hours of contract work to 4 customers.

At the fourth step, we say you could make at least \$ 40,000 per year, and we tell a lot of people that if you are happy there, or just don't have any more time, just stay there.

The fifth step is same casual hours (eight) and another four hours of contract work. That translates into five customers.

Your "job" is taking up 8 hours, and your five contracts are taking up 20 hours.

If you stay for the same charge rates you will make \$ 1,000 per week

$(8 * \$25 = \$ 200)$ at the job plus \$ 800 on contracts
 $(20 * \$40 = \$800)$.

How would you feel about increasing your hourly rate?



For the job, forget it. The market determines wages, and you'd be foolish to think someone should pay you more. You can see, by the way, that a job would never get you to six figures – 40hours @ \$25 = \$1,000/week. You wouldn't even get half way. Also you have a good chance, unfortunately, of either being laid off or replaced for whatever reason.

Let's talk more about hourly rates

THE FIFTH STEP – MORE ON HOURLY RATES

Apart from figuring out whether your football team can make the finals, no subject is trickier than hourly rates.

There are two schools of thought – fixed rates and fixed fees.

Each school has its devotees. Just to explain, under fixed rates the customer does not know what it will cost (although may have an estimate of hours). Under fixed fee the customer is quoted an exact amount for the job.

The accepted practice is that when a job is uncertain to estimate, then you negotiate an hourly rate. That means you have to disclose your hourly rate.

Alternatively, if the supplier pretty well knows what's involved, then a fixed price may be quoted.

The public also knows that there is a certain amount of gamesmanship going on, for example quoting a low hourly rate, but padding out the hours. Try hanging around a motor vehicle repair shop and see what they tell you.

The other issue is the type of technology that may be used in a job. A bookkeeper using an abacus might take longer than someone using a PC. Does that mean the person with the better gear should have a higher hourly rate?



Our take on an appropriate rate is this. The hourly rate charged is in three components:

- a. The rate of pay for the person
- b. The hourly cost of the “equipment”
- c. A premium for experience

Here’s a Bookkeeping example. The base rate is \$ 25. If the equipment (hardware, software, licences, registration & insurance) costs \$ 50,000 to set and maintain annually, then the hourly cost is $\$50,000/1,920 \text{ hours} = \$ 26$.

So far we have \$ 51 say \$ 50/hour.

The value for the premium is quite subjective, and that’s when the “market” rate comes in. It could be +\$ nil to = \$ 40+/hour (for bookkeeping).

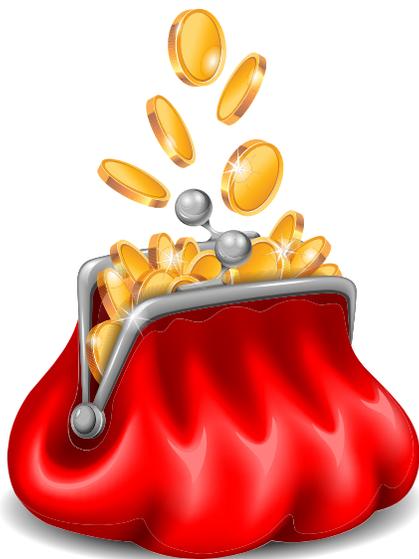
All up we establish a rate of \$ 50/hr + \$nil to \$ 40.

This quick calculation explains why bookkeepers charge as little as \$ 25/hour and as much as \$ 90/hour.

What do you say when the customer asks why do you charge \$ x per hour? Let’s use \$ 60/hour

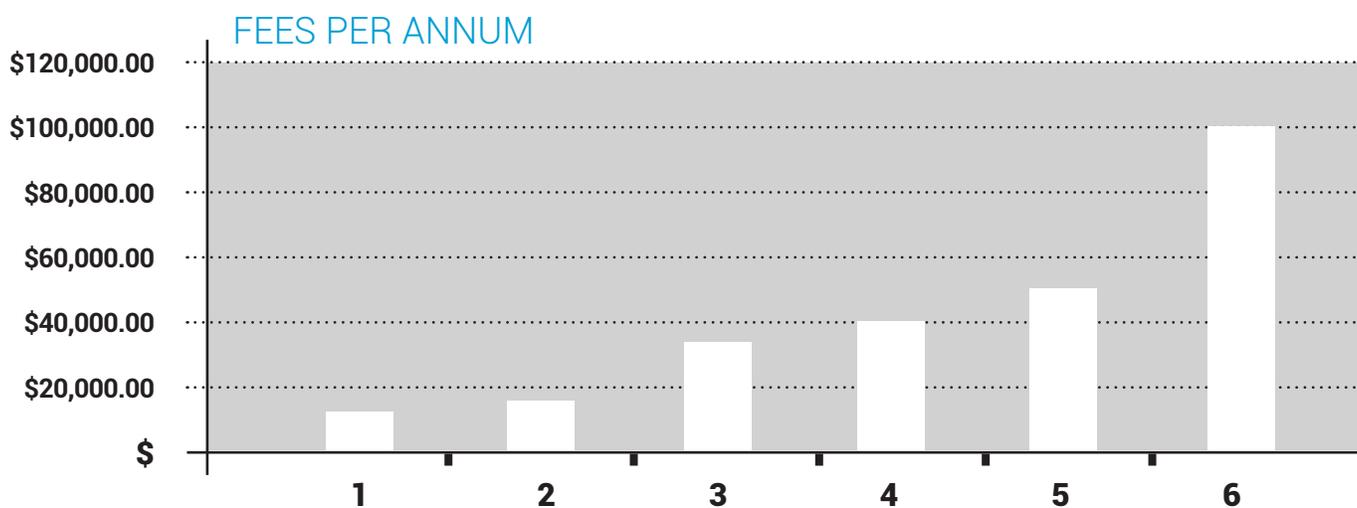
Here is a useful tip. You say that it cost me say \$ 60,000 a year for my overheads and that counts for \$ 34.78/hour (hours per year = 46 week by 37.5hours/week = 1,725). Then I have to add the basic pay

\$ 28.98 per hour, say \$ 25/hour. All up the charge out rate = \$ 60/hour.



Are you being a bit cheeky? Well not really. Most industrial awards mandate that people only work 46 weeks a year (4 weeks holiday + 2 weeks public holidays) and the average wage is \$50,000 per year which is \$ 28.98/hour all up.

In summary, you could go as low as \$ 25/hour or as high as \$ 90/hour, and that’s entirely your business.



The associations that run the Accounting and Bookkeeping professions recommend that work be charged out on the basis of time spent on the job. This is to discourage ambit pricing or success fees. This is a very transparent process, and quite unlike say real estate agents or financial planners that earn a % of turnover or amounts invested.

However the professional associations do not mandate or recommend what hourly rates are reasonable. This is still left to the market to sort out.

Our advice is that if you have struck an hourly rate, be prepared to explain that rate to your customer.

THE FIFTH STEP – PRICING A JOB.

You are negotiating with a new customer. They don't "like" their present bookkeeper, and you have been recommended.

What are the main things to do:

- You need an engagement letter which spells out what's to be done, and what information you require to do the job.
- If you are confident with the scope of the job, and the condition of the records, you quote a fixed price. Essentially you work out the time required and multiply by your target hourly rate.
- If you are not confident about the condition of the books, you will need time to sort out their system, and get your clients into shape. In these circumstances, you reserve the right to re-quote in a month.
- In the most uncertain circumstances, you quote your hourly rate.



THE FIFTH STEP – THE CHAOS IN THE RECORDS

One of the great challenges in Bookkeeping is to establish order in a chaotic business.

The common human reaction is to 'WBC' (winge, bitch & complain). Be patient and prove to the client the benefit of getting records into shape. However a good tip is to tackle just one segment at a time, and get positive feedback at each step.

For example, file the bank statements in date order and put into one file. Sounds simple doesn't it.

Your best client might be one that you helped to get into shape. However if you are not appreciated, or even worse not paid, just RUN. Remember that over 80% of small business is not serviced by an independent bookkeeper, so there are plenty of fish in the sea. Needless to say don't waste your time on repeat offenders.

THE SIXTH (AND FINAL) STEP

We're not going to say much now, because you've no doubt figured out the plan.

Just for the heck of it – we'll recap.

1. First step was a casual job for fours per week.
2. Second step was to double the casual hours to eight, and get four hours of contract work.
3. Third step was to sit on eight job hours, and go for another eight hours of contract work. You are then charging out 12 hours as a contract bookkeeper to 3 separate businesses.
4. Fourth step was to again sit on the eight job hours, and build to 16 hours of contract work to 4 customers.
5. The fifth step is same casual hours (eight) and another four hours of contract work. That translates into five customers. Your "job" is taking up 8 hours, and your five contracts are taking up 20 hours. If you stay for the same charge rates you will make \$ 1,000 per week ($8 * \$25 = \$ 200$) at the job plus \$ 800 on contracts ($20 * \$40 = \800).
6. At the sixth step you should seriously think about ditching the casual job, and giving someone else a go. It may be time to let go.

Replacing those 8 casual hours for two lots of 4 hours at your contract rate, will be very beneficial. You would make around \$ 1,120 per week ($28 * \$40 = \$1,120$)

Your foundation for Step 6 is to be entirely on contract, and have at least 28hrs being charged out, with around 7 separate clients.

From there you have a chance of getting to six figures.

We won't bore you with the numbers, but you have scope by increasing your customers from seven to twelve, and maybe adventurous with your pricing (hourly rates).

If you limit yourself to 40 hours per week and 48 weeks per year, you have to average \$ 52.09 per hour ($40 \times 48 \times \$52.09 = \$100,013$).

We live in the world of bookkeepers, and can tell you that many have set their hourly rate, and won't budge.

That is understandable but consider a situation where a job that normally takes four hours can be done in three. How ? You may have introduced efficiency in the job by better filing, by getting the owner to make fewer payments, by introducing the owner to the world of scanning and emailing you pdf information, to cut down your travel time.

Our message to the bookkeepers who want to sit on their rate, is to at least look for efficiencies and do the same work in less time. Technology is very much on your side.

Thanks for being so patient.

We'll conclude with some graphics and animation that hopefully will reinforce our main messages.

Good luck with your quest for six steps to six figures.

