

Hi, this is Wayne Rivers at The Family Business Institute. Thanks for tuning in. As always, we are interested in your comments, so click the button below. In addition, if you have ideas for future blogs, we're open to suggestion on those lines, as well. I want to follow on what we talked about last week.

We talked about the difference between accounting and finance and some of the subtleties there, and why you need to be future-focused on finance and not accounting. Part and parcel with that, we've had a bit of a discussion with some clients this week — who shall remain nameless, I don't want to embarrass anybody, least of all me — about the difference between expenses and investments. All right. Well it sounds stupid. An expense is paying for your electricity in your building, an investment is you give \$50,000 to your guy at Merrill Lynch and he puts it away for you and tries to turn it into \$100,000.

But, what we have found in my 28 years of working with Family Business is, and we write about it a little bit here in Family Business Crisis, what we found is that family business leaders are really, really, really good at controlling expenses. I would say that 98% of you watching this blog are thrifty. That's a nice way of saying, "Many of you are skinflints." But at the very least, you're thrifty. So, family business leaders are really good at controlling expenses. They say, "Oh my gosh, we spent \$10,000 on office supplies last year? You kidding me? We've got to cut that expense." Okay, fine. No problem. Every dollar of expense you cut goes right to the bottom line, that's terrific. But that training, those muscles get built up when the business is in its infancy, and now, let's say you've got a \$50 million a year company or \$100 million a year company, but you still got those expense muscles. And that's what you think about as a leader.

We talked about a few blogs ago, how to make \$5 million an hour. Well if you're focused on the \$10,000 paper and pencils expenditure, that is not \$5 million an hour thinking, it's not even \$500 an hour thinking. So, people are really good at identifying expenses. What family business leaders are not good at most of the time, is identifying investments. Specifically, I want to talk about return on investment. So, our little bit of a hassle this week with our clients was we were gonna charge X dollars for facilitating a group meeting, and they were saying, "Well that's too much." And I made the point to them — I thought, in a delightful and charming email — that they were looking at it all wrong. They're focused on the expense part of it. We're gonna have to spend, let's just pick a number, \$3,000 to get this meeting done. So, they're focused on the expense. What they weren't focused on is, "What would this training have done for the executives that they were gonna send?" And my point to them was, "Okay, you know the expense part, you know the investment part. So, return on investment, ROI, mathematically it's R divided by I."

They knew the I, okay? \$3,000. What they didn't know, and they weren't putting their minds around, was the R. So, I'm gonna spend \$3,000, which is a lot of money, don't get me wrong, but they weren't focused on the R, and we were willing to guarantee a 5-10 times return. Now, if you could take \$3,000 and give it to your Merrill Lynch guy and he could get you 5-10 times return on that money, you would think he was a genius, and you would go to the country club and brag about him to all your friends and recommend him. So, in this case, we're getting push back, and it's simply because the fellows weren't thinking about the R. Okay? \$3,000 is my I, what's my R? So, when you're looking at the cost in your family business, and you're thinking about, "How can I make

\$5,000 an hour," or \$5 million an hour in a perfect world, think about the R. Don't get hung up on expenses. Think about investments, and, "What am I gonna get? What is my ROI, return on investment, R divided by I?" And stop nickel and diming yourself so that you can go to a better, happier, more fun place in life, and, oh by the way, have a more prosperous and profitable company, as well.

This is Wayne Rivers at The Family Business Institute. Thank you.