**TBP 238 Edited\_Transcription**

[Daniel Hill] (0:05 - 16:19)

Welcome to the Blueprint Podcast. In these episodes, I'm going to share with you my life's work boiled down into simple blueprints that I used to build a 10 million pound portfolio and retire with financial independence at the age of 35. You can listen to these podcasts in any order, and I guarantee you that when you execute them in practice, you will see that success and failure are both very predictable.

Let's get into the next blueprint. If you are running around telling people and potentially yourself that you are not doing this for the money, you're doing it because you love it, you're doing it because it's a passion, you're not doing it for the money. One, when the money doesn't arrive and it doesn't pay the bills, I think you wish you might have done.

And two, when you get further into your career, I think you would have realized you've left a lot of opportunity on the table. Now, I'm not saying that you should do everything for money. And in fact, in my experience, when you chase the money, it never actually arrives.

However, if you want to be a high performance, high net worth property entrepreneur, you need to understand how to make money. And here are 10 reasons why I see people in business and property not make money, which fully explains why over 95% of businesses will never make a profit. So at number one, I would say a low hourly rate.

And you might think this doesn't apply to you because you're making yourself a hundred thousand or a couple hundred thousand pound a year. I suspect it probably still does. If you're still doing things like driving your own car and it's not for enjoyment or writing your own emails and it's not something you actually want to do.

Those are both 10, 15, 20 pound an hour jobs that gives you a low hourly rate. Those tasks can be delegated to high performing team members in the UK or overseas. You do not need to be doing those things.

If you want to earn more than 15, 20, 25 pound an hour, they are tasks that need to be delegated to the right people. The second is running around doing deals that do not make money. The amount of people I see doing business deals or property deals based on ego, the fact they want to get to 10 or 20 or a hundred houses rather than actually making money is astounding.

And whether they go into it knowingly or not, I don't think people place enough emphasis on doing deals that actually make money. Nowadays, and this would have applied to me back in the day, I would have always done deals for the excitement to hit a target, to get that rush. But once you get long enough in the two, if you realize, actually, I don't want to do all the pain, the headache, the work, if it's not actually going to make money.

And nowadays I'd much rather only do one or two really nice big deals a year rather than running around doing deals that just fundamentally don't make money because it's exhausting and it's a complete false economy. Number three is growing themselves bust. A lot of people in business want to grow, grow, grow, expand, expand, expand.

Bigger is better. I did that and I can assure you that more revenue does not mean more profit. Bigger is not better.

Actually, bigger revenue and bigger business means bigger headaches and smaller margins. Growth is not the solution to make more money. As you get bigger, you actually need more layers of management and the costs and the headaches and the pain of running your business get higher.

I see lots of people who have, say, 50 units in their portfolio. They're making a hundred grand or a couple hundred grand a year and they've got a small team and it works real nice. I then see people who go to 200, 300, 500 units.

They end up building a monster. They have departments and offices and HR companies and all these extra layers of cost. When you're still charging the same for the product and the same cost of sale, growing yourself bigger actually reduces your margin.

So you end up with bigger headaches and smaller margin, higher risks and lower returns, not necessarily where you want to be and lots of people just grow themselves bust. They take what is a great little boutique business and they focus on growth because of their ego rather than actually generating wealth and making money, which is more about the economics of the business. Number four is poor risk management, especially in times of a turning market where not everything is sunshine and rainbows.

People get stuck in deals. So they buy a deal and they don't get planning or they get planning and they do the build and it goes over budget and the budget was too small or they buy a site auction, hope to achieve X, Y, Z with it and it doesn't work. When you're looking at risk management, you need to have a plan A, B and C for your strategy.

You need to have a exit and then a safety net for how you're actually going to get off of the other end. You've got to hope for the best and look at what it could do if everything works well. But we all know in business and property, things cost more than you think and they take longer.

You've got to expect the worst. What's actually going to happen in the worst case doomsday scenario? Poor risk management is what I see a lot.

People go into deals that I look at and think, why would you go for that sort of deal? Maybe they're going to spend half a million pounds on a planning app to convert a car park. Whereas if they don't get the planning, they're going to lose half a million pounds or perhaps they're going into a development which relies on everything coming in on budget, on time, selling 25 houses and the market going in their favor.

All it takes is a delay, an overspend, a change in rates, a move in the market, and all of a sudden they're in a very, very sticky situation. There's so many levels of risk in business and development, I would say you want to have a well-managed appetite and portfolio of risk. Look at deals where you can de-risk everything.

De-risk the entry, de-risk the funding, de-risk the bill, de-risk the exit. Things like that would be buying existing stock that's suitable for conversion rather than perhaps new build. In some cases, new build could be seen as being low risk.

Can you go for PD options, extensions or permitted development rather than full planning apps? In the build, can you get it on a fixed price contract or a fixed price plus contract with a main contractor rather than being the project manager and subbing it all out on day rate? And the exit, could you refinance it and rent it?

Could you forward fund it? Could you exchange and sell the units off plan? What can you do to actually de-risk it?

A lot of people I see that don't make money are not de-risking their deals. The fifth is unrealistic budgets. The amount of budgets I look at nowadays for either recruiting team members where actually they'll end up with puppies rather than superstars, or the money that it's going to cost to actually get a planning app through.

You might budget 20 grand or 30 grand, comes in at 120 because you have to go through it three times. You go to committee and they want inside, outside, upside down drawings, and it gets completely out of control. Build costs, refurbs, I see a refurb and someone say, yeah, we'll get round it for 20,000 pound a unit.

And I'm thinking, do you know what? I would be budgeting more like 40,000 pound a unit. Maybe they know something I don't.

What I see six or 12 months later is they didn't know something I don't, or I knew something that they didn't. And actually they end up in a hole, end up overspending, perhaps not making any money. And then obviously the sale price, again, it's hope for the best.

Tell your agent what you want, hope for the best, but expect the worst. Stack your numbers on, if this drops 10%, 15%, 20%, how much less profit am I going to make? Not if it drops 10%, 15%, I'm in a hole and I can't even get off of the development lot for our finance, those sorts of things.

So making sure you have realistic budgets. Number six is a danger zone where you're getting into finance terms. So things that I would be, I tend to avoid now, and I teach this to the proper entrepreneurs every month.

I would be avoiding things in most cases like bridging finance. If you're going to go on to commercial, don't expect to be refinancing off a bridge onto five, 6% buy to let finance commercial is still seven, eight, nine, even 10%. If you're buying businesses probably well into the double digits, there's a danger zone in finance terms.

So make sure if you're going onto a bridge, you can get off of it. If you've got a fixed term finance product, say it's 12 months or two years, make sure that you've got the rents going up or make sure that you're in a position where you can go onto a product where it's still stacked. Don't fall into the dangers on finance where you become into a default period on a bridge or your development loan finance goes from 1% a month to 2.5% a month because you go into default. Make sure you don't fall off of a fixed rate buy to let or residential mortgage and then fall onto the variable, which would take you from say four and a half, 5% up to eight and a half percent. Just watch out for those danger zones because that's how a lot of people make money. That's how credit cards work.

They don't make any money when you're paying your balance off every month, but that one time you miss a payment, they charge it. That one time when you can't afford to pay off, you then go on to 28% APR finance. Just watch out for that danger zone in finance terms because that's why lenders are there.

That's how they make their money. Number seven is a poor performing team. Now this is a double-edged sword because you want to grow.

You want capacity. You want to recruit people. But especially in the early days, you don't have the money.

So what happens is you recruit poor performing people. You recruit the best you can afford. And yes, you're finally needling a haystack who's looking for a change of pace, looking for a young culture, of course, but actually the reality is you can't afford the professionals and you can't teach experience.

And you can end up in this position where you have a three-legged race. You're recruiting more people to try and make the business go faster, but actually it's slowing you down because the people you're bringing in are creating problems. They're causing service failure.

They're overspending. They're undercharging. They're losing you money.

And actually, as you start to delegate, your business starts to deteriorate. And this is a real trap where you can't afford what you need. Poor performing team can be a real thing that holds businesses back and stops them from making money.

Number eight is not having clarity on finances. The amount of businesses I see, especially in the property space, who don't understand, I mean, there's three reports you need. You need a profit and loss, your budget and actual every month.

You need your balance sheet and then you want your forecast. Those three documents will show you exactly where you are, where you want to go and how you're going to get there. You need to have that.

The amount of people that I see in development and running businesses that don't understand the basics of things like working capital requirement. I have a working capital requirement figure for every single bank account of every single development, property, business that I own. And the number one rule is don't go below the working capital requirement.

Because if you break the rule number one, you end up in a difficult position. That's the baseline of money. Until it's above there, you can't use it.

Not having a handle on your finances is one of the hardest things, one of the biggest challenges that I see businesses have. And not having that clarity is going to be very detrimental. It's definitely going to stop you from making money.

You want to have a business that is driven by a business model and a forecast and the actual numbers, not living off the bank balance, because that's a complete false economy. And most people end up in a hole. Number nine is low price points, low sales and low margins.

Unless you go out there and build a profile and raise your standards, raise your profile, create a niche, an avatar and charge premium price points, you're always going to struggle with charging low price points, which means you're going to be competing on price. You're going to make low sales. And then by definition, you're going to have low margins.

If you're aiming for a 10 or 20% profit margin, you really are right down the bottom of the business models that we would look at if we were going into it. That said, you are right at the top of performance of companies in the UK. If you're doing 10 to 20% profit in the UK, that's deemed to be the UK's elite of profitable companies.

To benchmark that against the proper entrepreneur businesses, we would encourage you to look at a business unless you can make a minimum of 30% profit, ideally 40%. Now, that's not every business. In fact, it's probably not pretty much every business because most businesses don't actually make any money at all.

What we're looking for is the needle in a haystack, the sweet spot, the commercial balance, understanding exactly what needs to happen when to make money. And that's where you'll have a business that actually makes you money. A bad year wants to be 10 or 20% profit.

A bad year definitely doesn't want to be a loss. Who else in the world would go to work for 12 months and have high stress, high pressure, high risk, and actually lose money for doing it? A bad year should still be a profitable year.

And that'll only happen if you're making 30% or 40% net profits. And then finally, as I alluded, is most businesses don't starve to death. They choke.

Most businesses choke to death, not starve. As soon as you get going and figure out how to make money, the challenge you won't have is winning work. In the UK or even globally where the markets are busy, demand is high, supply is not high enough.

You speak to anyone nowadays, they're busy. The turnaround times are slow. The lead times are long.

Everyone's quite busy. And what you realize is going out there and paying the bills or bringing revenue in isn't actually that challenging. But what you want to do is not choke to death.

I mean, you're not going to starve, but you also don't want to choke to death. You don't want to just take work, grow for the sake of growth. You want to actually keep small.

You want to keep oversubscribed. You want to keep boutique. You want to raise your price points, increase your desirability, reduce your access, establish your waiting list, and create the next oversubscribed business where people are queuing up to do business with you.

You enjoy it because you're delivering world-class products and services. Your clients are happy to work with you, refer with you. Yes, only 5% of the market can afford you, but the 95% of the industry that can't won't.

And that's where you want to get to. Every single one of these problems has a blueprint to overcome it. If you've not already secured a place at one of our three-day events, we take you through these start to finish.

95% of businesses in the UK do not make money. Don't be another busy, burnout, bored, or broke property investor. Overcome these problems by building a highly leveraged, highly lucrative business in property and become a high net worth property entrepreneur within this space.

Success and failure are both very predictable. Don't make those mistakes. Many of those I've made.

I see them often. Avoid them like the plague. And I'll see you on the next Blueprint episode podcast.

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Success and failure are both very predictable. I'll see you on the next episode.