

Are Your Net Profit Numbers Distorted?

I caught up with one of my long-time [E0](#) friends, [Greg Crabtree](#), at the E0 Nerve Conference in Atlanta. We have hung out and experienced E0 events around the world, and we are both passionate about [E0](#) and the people there that we learn from and grow with. Greg served on the E0 Board as the Finance Chair, which was a perfect fit since his unique perspective allows him to explain numbers in a more entrepreneur-focused way rather than typical accountant speak.

I was excited to catch up with Greg and learn about his first book release! He wrote “[Simple Numbers, Straight Talk, Big Profits](#),” and Nerve thought enough of it to share with all the attendees. Greg told me a little about the book, so I have been eager to read it.

✖ Greg opens the book with a really insightfully point: Most entrepreneurs are not clear on the difference between their salary and the return on what they own. Greg continues, “In fact, all of my clients have confused the profits of their business with their salary.” You get paid a salary for what you do, but you get a return on what you own. When you are not paying yourself a salary at market levels, you are distorting your true net profit margins.

When you are not looking at accurate numbers from this perspective, your financial data is worthless. Making decisions from skewed financial data is, as Greg says, like having a compass that is five degrees off in every direction. If you don't get real with the numbers, then you won't get where you want to go.

He gives an example of a client that thought they had at least

a 20% net profit margin, but when he looked closer he found they were paying themselves a below market wage. When it was adjusted, they realized that their true profit margin was 5% before taxes. Shockingly, he found most of us entrepreneurs are underpaying ourselves. This may be to show off our higher numbers to others or because we really didn't know the difference.

Greg subscribes to the [Economic Research Institute's Salary Survey Assessor](#) but says you can go to www.salary.com to compare your salaries with the industry averages. After reading just the first four chapters of the book, I see many opportunities to share more insightful wisdom from Greg in future blogs.

Are your net profits where they should be, or are you over or under paying yourself?