

Welcome to the first Online Business Ride Along update!

Let's get right to it...

January 2021 starts a year where every single person in the world is hoping for a better year.

At the end of January, I can say "*so far, so good*".

We started the year with routine increases in our top-line and bottom-line numbers. Nothing substantial, nothing extraordinary, but after the last 10 months, I'm happy with boring and methodical results.

January 2021 was a strong month overall when I factor in the significant ups and downs in MRR that occurred as the month progressed (*discussed below*). By the end, revenue increased 2.99% over December 2020 and profit was up 16.11% (*for reasons why, also see below*).

A couple items that I thought I'd highlight are below.

If you have other questions you'd like to read about in the month reports, please add them to the comments below.

Why Are December Operating Expenses So Much Higher Than Other Months?

Did you notice how my operating expenses for December were around \$10,000/month higher than usual? That doesn't match the usual pattern of incrementally rising monthly expenses, does it?

For many profitable businesses (*that are not seasonally based around the holidays*), you will often see this type of anomaly at the end of the year. Expenses will be higher in December and lower in January. Many times, the reverse is true for revenue, where it would be lower in December and higher in January.

Why the heck is that?

Well, like most things that shouldn't have an effect on businesses but still does, it comes down to taxes.

When you have variable income, once you've reached December, you likely know the majority of your business and personal income for the year. If you have positive income, it is beneficial to book as many upcoming expense items in December and defer revenue until the next year. That allows you to lower your current year tax bill and defer income taxes into the future tax year.

For SaaS businesses that use cash-based accounting, it's easier to pay future required and expected expenses in December, but harder to push actual income out into the future. Since our SaaS subscriptions are paid monthly automatically, I can't postpone those payments until January. Technically I guess I could, but it would be a massive hassle and look very, very odd to customers and anyone that may want to acquire any of my companies in the future.

This year, I didn't have any situations where I was able to ask a customer to pay in January vs. in late 2020, so my revenue numbers were unaffected.

But you can likely see that my expenses are outside of my normal trendline in December and January. For me, December is usually the month where I pay in full for business insurance premiums for the entire following year, pre-pay any account payable bills, and max out any other expense to minimize my taxes for the year.

These expenses can be small items like printer paper, stamps, and other office items. Or larger purchases like new equipment or software that you will need the next year. Additionally, if there are any conferences, training courses, or other events that you plan to attend early on the next year, it's not a bad idea to pay for them in December.

If you can find \$10,000 in future planned expenses that you can pay for at the end of the current year, you reduce your business income for the year and will lower your taxes a fraction of that amount as well.

Net Taxable Income	\$ 100,000.00	\$ 100,000.00
Extra Expense		\$ 10,000.00
Taxable Income	\$ 100,000.00	\$ 90,000.00
Tax rate = 20%		
Taxes Owed	\$ 20,000.00	\$ 18,000.00
Savings	0	\$2,000

This chart generalizes the tax rate at 20%. That rate will be different for everyone

Evidence of Corporate Budget Adjustments

2020's challenging business climate is starting to show up in 2021 budgets. Some companies are likely cutting 2021 budgets to keep cash balances healthy to get through what appears to be another challenging year.

In the first 7 days of the month, I noticed a higher percentage of business accounts downgrading their pricing plans. Unfortunately, this general pattern occurs at the start of every month, but it was a lot higher in January 2021.

I attribute this drop to lower annual budgets for 2021 across many B2B vendor companies.

To show how significantly those changes were in the first week of the year, in percentage terms, total MRR was down 5% in the first few days after the turn of the new year. That's 5 times more than usual. Not cool!

But, by the end of the month, MRR climbed back up - thanks to new and current customers - and surpassed December 2020's subscription MRR with a 3.44% increase for the month.

That is the largest MRR percentage and dollar swing in one month I've ever seen in my six years running my software businesses.

My wife always asks "how's the month going?" and on January 15th I told her, "Well, I hope we stay level with last month" with a bunch of excuses why MRR was down so much so soon. Trust me, I never expected to be up 3.44% at the end of the month, but I'll take it.

February and Beyond

I'm cheating a bit, as it's February 9th when I'm writing these goals, but the goals for February are:

- Speak to more SBA loan experts to prepare for another 6-7 figure purchase
- Write 1-2 publishable essays a week.
- Start a self-drive "90 Days of Twitter Engagement" to see whether I can stomach Twitter long term.
- Launch Online Business Ride Along, add first content and P&L's for 2015 – Jan 2021.
- Increase MRR 2% across the board.
- Begin "**Due Diligence for First Time Online Business Buyers**" book (*or first time software business buyers*)
- Hire an AdWords and Sage Accounting Expert to teach my team how to use those tools more effectively.
- Continue to improve the content on MichaelFrew.com and OnlineBusinessRideAlong.com.
 - *It's the early days for these two projects and I have a lot to learn to make them truly a valuable and professional service for everyone. Bear with me as I figure this out.*

Let's leave it at that goal list and see how we do in February.

Chat soon,

Michael

michael@onlinebusinessridealong.com

Got ideas of what should be in these monthly updates? Please post them in the comments below. I promise to give the best answers that I can.