

Strategies for Success—Billings Business News

Think before you Jump!

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In the rough economic times that our nation and our businesses are currently experiencing, business owners often review their tangible assets to see what assets may be turned to “liquid” cash. This liquid cash is used to pay on accounts payable, rent or pay for other recurring expenses.

This is a strategy that many business owners have used when they have got into a “tight bind” for cash. However, this is probably the poorest strategy to use, even consider, especially if you plan on continuing in business past this current economic downturn.

Here is why the strategy makes absolutely no business or economic sense. The price for the asset, say the fancy conference table or the nearly new multi-functional machine is not worth what you originally paid for it. The asset has depreciated. Used office furniture is very inexpensive when compared with new furniture. Selling your conference table now, when sales have decreased, may, in the short term, provide some liquid capital to assuage short term debt. However, when the market turns around, you begin to experience increased sales, greater customer visits and the need for the table returns; you will need to replace it with another one. Another table, either new or used, will probably cost more than the table that you currently possess. Yes, the current table may not be the newest, fanciest or pretty, however, it certainly fulfills the purpose—the ability to hold material when you are having a client conference.

Going out and having to buy another table when you need it most also poses some other challenges that you may not have fully realized. The day that you need the table the most is normally the day when everyone else needs one as well. The furniture office supplier firm is out of inventory with the table that you want/need the most and it will take several weeks to get a new order from the factory. Your need is so great, that you either settle for something that is smaller or larger, inferior or superior to that which you had---- and in the process, spent more money than you had originally budgeted. At the end of the day, you spent more money than you had actually budgeted and probably, ever received for your old table. This is not the way in which to make money or retain capital for your firm.

Economic slowdowns are exactly the right time to think about the strategic direction of your business. What is the actual and defined mission of your firm? What is it that you do? Hopefully, you do it well—after all, the goal in business is to make PROFIT—green dollar bills! Now is an ideal time to reconsider both the mission and vision of your firm. Every firm, no matter how big or small, 1 person to General Motors, should have a mission and vision statement. The mission and vision statements provide the guiding principles for the operation of the firm. As many small business owners have found out, normally to their chagrin, the firm cannot be all

things to all people. Said another way, the successful and most profitable firms are able to identify an operational niche and successfully work that specific niche.

The firm's vision and mission statements provide the focus and direction for the firm in working in a specific niche market. As a business owner, you will have many opportunities to either explore or be involved in activities that are slightly tangential to your primary mission. Often times, business owners see the new tangential opportunity as another profit center that will buttress the primary business. This may be the case if one has done lengthy and in-depth due diligence and has considered all of the various ramifications and implications on how the newly identified tangential business interrelates to their primary business. When this due diligence is not done, disaster usually results--- with the final end result being an expenditure of many dollars wasted.

I once visited with an individual who was in the direct sales space. He had a small business and decided that his business could grow and prosper if he were to engage in internet marketing, specifically, the development of web sites for other small businesses. He decided that becoming a franchise owner of a web development business would solve all of his problems and provide the necessary income he desired. He invested approximately \$50 thousand dollars in the franchise, took some basic rudimentary training and was "certified" by the franchise holder to be a web site developer. Interestingly, he did not develop a mission/vision for his original small direct sales business. Both businesses were totally different and required much different skill sets, talents and backgrounds to operate. Additionally, the franchise business required someone who had good technical talent and could address complex technical questions as well as serve as a business development/sales consultant. The owner of both businesses did not possess these skills and had to try and hire technical talent. The bottom line was that the internet business was never successful and never became even remotely profitable. The owner lost his original franchise fee, the many hours he spent trying to make the business operate as well as lost income from his original business.

Another perceived "panacea" that I have encountered with many small business owners is buying another business, and finding a manager to run the second business. This is also another challenge fraught with problems. The first challenge is trying to find a successful manager to run the new business. Most business owners who buy a second business not related to their original business do not know or understand the new market space in which the new business operates.

Let me cite an example. I am familiar with a business owner who is in the construction service business and decided to become a partner in a nationally franchised fast food establishment. The business owner failed to perform in-depth due diligence, accepted the numbers that the franchisee provided and did not ask other franchise holders in the same geographic area how their business was performing. This new business was considered to be a "cash cow", providing a healthy serving of fresh cash each and every month. Alas, the first 5 months, the business made a nice profit and returned a handsome return on investment (ROI) to the owners. In month 6, the road in front of the fast food establishment had some construction work performed on it and business decreased by about 55%. This unforeseen and untimely

decrease in business caused the owners to “feed” or inject needed working capital into the drive-in. Interestingly, this also decreased the owners overall capital he needed for the construction service business. The fast food establishment manager found a new job that paid an additional quarter an hour and left. This left the owner in a bind. He had to trust the remaining staff at the fast food establishment because he had his original job to perform, but also, more importantly, he did not know enough about the fast food business in order to make the critical cost conscious decisions necessary for sustained operational viability of the fast food establishment.

The owner has learned more about the fast food business, his particular franchise and how to provide strong leadership and management of his workers. The delay in the road construction has caused the fast food establishment to continue needing monthly cash injections by the owner. The bottom line in this example is that the right time to decide all of these questions are BEFORE any money is even envisioned being spent.

Cost containment in small business is one of the most critical parts of successful business ownership. A change of only 1-2% can determine whether the firm is making money, or losing money.

Thinking that you can be the owner of a business and not be physically present and actively involved in the business each and every day is not thinking. The most successful and profitable businesses are those that have constant owner attention and involvement. My Dad used to always say that there is no such thing as a free lunch! Hard work, constant attention and continual attention to detail are the keys necessary for successful business operation. If some idea appears to be easy, simple, ideal, there is a snag there that you have not yet identified. Attention to detail and due diligence are the keys to successful enterprise operation.