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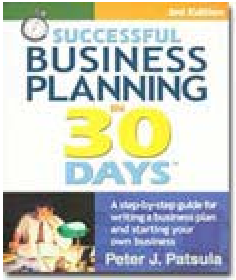

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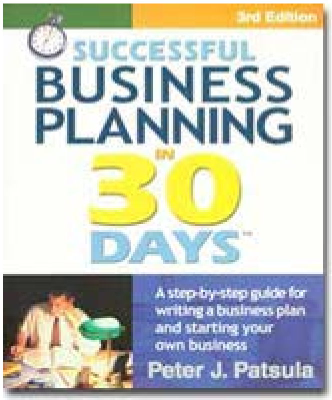

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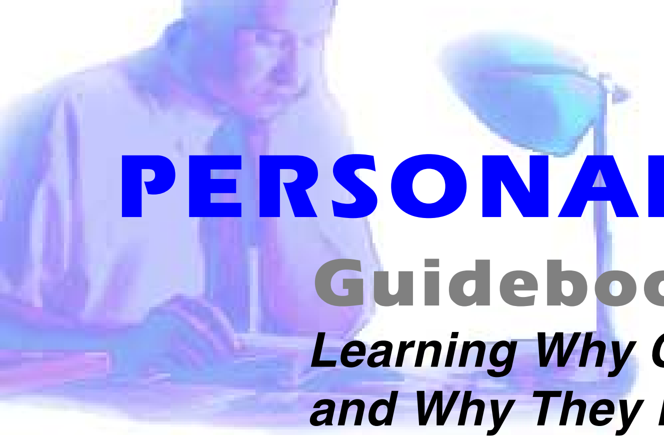

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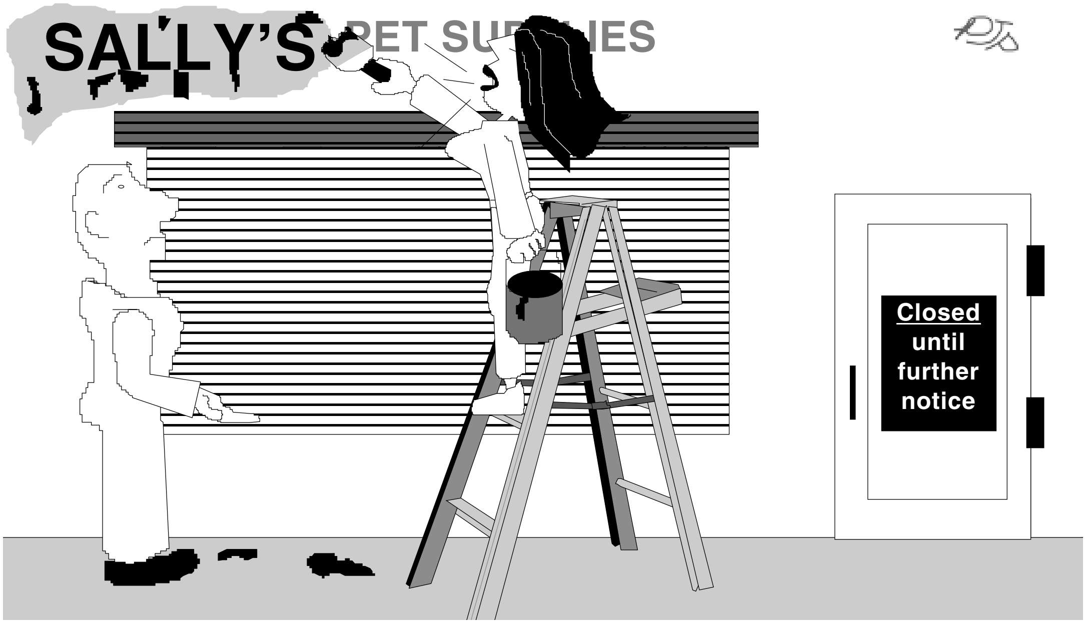


"Why? Because let's just say . . . I do all the work around here, and YOU keep taking all the credit!"

LEARNING WHY COMPANIES SUCCEED AND WHY THEY FAIL

SUCCESS is an elusive concept because it can mean different things to different people. In fact, depending on who you are success could mean money, power, fame, or a hole-in-one.

In this guidebook however, success will mean only one thing: PROFIT. In other words, this guidebook is singularly dedicated to helping you discover how you can keep your business "in the black" by duplicating the successful strategies of other successful companies, and how you can avoid the numerous small business sins that have left other companies "in the red."

WHY COMPANIES SUCCEED

FOR A NEW business to survive you need a qualified entrepreneur, a potential business opportunity, a solid and detailed plan, sufficient capital, and perhaps a little bit of luck. However, for a new business to perform beyond expectations and approach excellence, you need more than that.

Below is a collection of conditions that make companies achieve a state of excellence. Study these conditions carefully, and try and figure out how you can make them part of your budgeting, marketing, and planning ideologies and practices.

To be a success in business, be daring, be first, be different.
MARCHANT

Companies Succeed Because They . . .

Adopt effective communication systems. Excellent companies believe in the importance of informality between management and employees to enhance communication. To achieve this they:

Allow employees to cut off the company president when they have a better idea. Excellent companies allow employees to cut off the chairman, the president, board member, or department manager without hesitation and without fear of being fired or reprimanded.

Encourage daily informal get-togethers. Excellent companies don't make meetings a rare and stuffy formal event, nor do they require formal agendas to get together.

They encourage regular informal meetings in bathrooms, lunchrooms, hallways and offices. As needed they also have non-scheduled meetings with perhaps only blackboards or whiteboards for writing down ideas and a hot pot of coffee – no multi-media 3D computer presentations required.

Encourage informal communication. Excellent companies encourage employees and senior staff to speak bluntly and straightforwardly with each other. They also have easily accessible suggestion boxes and prefer corresponding with short hand written notes or E-mail, rather than formal printed letters.

I never like to follow the crowd.
J. PAUL GETTY

Encourage intense communication. Excellent companies allow presentations and meetings to get wild. After formal presentations, questions can be unabashed, the flow is free, and everyone is encouraged to get involved. In fact, yelling, screaming and shouting is permitted as long as it makes your point more easily understood and lets other know how well your idea is thought out. In excellent companies, intensity means commitment and dedication. No one is allowed to watch a presentation and then get away with a few polite comments at the end.

NOTE It is important to note that *intense* does not mean that people seek to personally attack each other's ideas. Weak ideas are nudged off the agenda or discarded based upon their merits not upon who said it.

Support open communication policies with *mess tables in their lunch rooms.* Excellent companies get rid of small round four-person tables in their staff dining rooms, and replace them with long rectangular army-style mess tables. Long mess tables make it easier for strangers to come in contact and exchange ideas. Smaller round tables encourage people who already know each other to sit down and eat lunch with each other day in and day out.

Are action biased. Excellent companies have a willingness to try things out and experiment. They experiment with new technologies, marketing techniques and manufacturing processes. They aren't scared to lose a little in order to gain a lot.

Businesses are successful because someone makes the sacrifices other are unwilling to. ***KI-JUNG KIM***

Are quality driven. Excellent companies seek to provide unequaled quality, service, and reliability. They strive to make things that work fast and last. Their fundamental goal is to create products and services that add value to the lives of their customers.

Are test marketers supreme. Excellent companies know how to get test market results fast. Instead of allowing 200 or so engineers and marketers to work on a new product in isolation for umpteen months, they form groups of 5 to 25 and test out ideas on customers, often with inexpensive prototypes, within a matter of weeks.

Are value driven. Excellent companies believe that the basic philosophy of an organization has far more to do with its achievements than do technological or economic resources as well as organizational structures and innovation. In other words, companies succeed if its members share a common vision of their future, feel they are important part of the whole, and look out for each other.

Mike Doohan, 500cc Superbike racing champion, who won back to back championships in 1994 and 1995, would not accept 2nd and 3rd place bonuses from his sponsors. Instead, he told them to increase his 1st place bonus. He said that he wanted it all or nothing, because being second was as good as being last. ***FUNFACT***

Audit company's performance quarterly. Excellent companies analyze their performance at least quarterly to monitor their growth, keep on budget, realign sales projections, and check for danger signals. (see pages 9, 10, 11 & 12 for a management, operations, marketing and finances checklist for excellent companies).

Believe in being decisive. Excellent companies tackle serious problems with their full force quickly and decisively. When they have a problem, they throw together a decision making team, stick them in a room, and don't let them out until they've come up with a solution – usually this takes no longer than a week. After that, they implement the solution. In fact, even if their decision making process tends to be analytical, they don't let themselves become paralyzed by it. Their standard operating procedure is, "Fix it, try it, and then get on with it."

Believe in being the best. Excellent companies won't settle for being second rate. They want to achieve. They believe in superior quality and service, not quantity, or having the lowest prices.

Believe in details. Excellent companies believe in the nut and bolts of doing a job well. They believe in the importance of the details in their products as well as the execution of their services.

Believe in productivity through people, not things. Excellent companies treat the rank and file as the root source of quality and productivity gain. They encourage happiness and a sense of community. They do not foster us vs. them labor attitudes or regard capital investment as the fundamental source of efficiency improvement. In fact, they invest in human capital as much as they do in equipment; use training as a ve-

Checklist for Excellent Companies

MANAGEMENT	
Basic Planning	**Personnel**
❑ Clearly defined mission statement prepared	❑ Employees aware of employer expectations
❑ Pricing policy established	❑ Employees have clear job descriptions
❑ Sales plan prepared	❑ Preventive discipline is used when appropriate
❑ Yearly budget prepared	❑ Regular employee meetings are held

hicle for instilling trust; spend time lavishly on recruiting; and believe fundamentally that if you train people to be better, they will reward you.

Believe leaders are servants of the people, not kings. Excellent companies act more like servants to their customer rather than rulers or kings, and certainly not dictators. Leaders within excellent companies tend to try and help their employees succeed rather than give them orders to perform.

Concentrate on long-term goals not short-term profits. Excellent companies are more interested in their long-term sur-

Checklist for Excellent Companies

OPERATIONS

Inventory & Order-Entry

- ❑ Inventory control measures established
- ❑ Good relationship with suppliers established
- ❑ Alternate sources of raw materials and supplies secured
- ❑ Incoming inventory inspections conducted
- ❑ Well-documented processing procedures established

Production

- ❑ OSHA standards met
- ❑ Formal operator training programs established
- ❑ Routine maintenance program established
- ❑ Environmental awareness policy present
- ❑ Up-to-date on new technological advances

vival rather than short-term gain. They do not reward shortsighted and short-term steady growth. They see the BIG picture. In fact, they will let company profits slide for a quarter or two, and perhaps as long as a year, as long as their long range planning objectives are being met.

NOTE Excellent companies meet long-term goals by setting realistic objectives – discrete, quantifiable actions each of which connect to the next in some logical progression and are all directed toward meeting the goal deadline.

De-bureaucratize. Excellent companies reduce and simplify paperwork and unnecessary procedures.

Develop new product lines when appropriate. Excellent companies under-

Checklist for Excellent Companies

MARKETING

Sales & Marketing

- ❑ Owner(s) have a keen awarness of competitors and their location
- ❑ Owner(s) knows exactly what the business is selling
- ❑ Owner(s) aware of customer needs
- ❑ Owner(s) and employees focus on customer needs

Advertising & Promotion

- ❑ Effective advertising and promotion plan established
- ❑ Effective merchandising techniques researched and implemented
- ❑ Advertising and promotional efforts evaluated regularly

stand that all products and services eventually become obsolete. Therefore, they keep in touch with their customer's tastes and preference and their changing market characteristics. They regularly seek out feedback from current customers to help generate leads to new product or service ideas.

Encourage innovative thinking. Excellent companies believe that all members in their organization have the potential to be innovators and that every worker is seen as a source of ideas, not just acting as a pair of hands. Excellent companies foster autonomy and entrepreneurship. They try

Checklist for Excellent Companies

FINANCES

General Bookkeeping & Accounting Practices

- ❑ Effecient bookkeeping system established
- ❑ Bank statements reconciled monthly
- ❑ Accurate monthly income statement prepared
- ❑ Deposits for federal withholding and Social Security taxes made monthly
- ❑ Credit policy established
- ❑ Tax returns filed in a timely manner

Financial Planning & Loan Proposals

- ❑ Cash flow position strong
- ❑ Cash flow needs projected regularly
- ❑ Awareness of the importance or proper financial planning in today's highly competitive lending markets

and create a working environment akin to a beehive, filled with a loose network of laboratories and cubbyholes populated by feverish inventors and dauntless entrepreneurs who feel free to let their imaginations fly in any direction. They encourage practical risk taking and support good tries. They show a distinct willingness to support failed attempts. In fact, fundamentally they believe that to innovate it is expected that you must first generate a reasonable number of mistakes.

If you are given a gift and you do not use that gift to serve the people, it becomes a curse!
NATIVE INDIAN PROVERB

Enjoy their prosperity, but never take it for granted. Excellent companies never believe they are winning or performing as well as they actually are. They like to come from behind. They like to play the underdog. They like to think that their competition is one up on them even if they aren't.

Get close to their customers. Excellent companies get close and stay close to their customers to be able to satisfy their needs and anticipate their wants. They also realize that each customer is a potential wealth of innovative ideas, and that most of their best product ideas will stem from listening to their complaints, questions and suggestions. To gain access to a steady stream of customer input, excellent companies use suggestion boxes, questionnaires and 800 numbers.

NOTE Proctor & Gamble was the first consumer goods company to put a toll-free 800-phone number on all its packaging. In its 1979 annual report, it stated it had

200,000 calls on that 800 number. These calls proved to be a major source of product improvement ideas.

Have a profound sense of dissatisfaction with their accomplishments. Excellent companies use any success, or victory as a spur to greater ambition. In other words, any goal that is attained immediately becomes the next step toward a greater more unreachable one.

We must believe in luck. For how else can we explain the success of those we don't like.
JEAN COCTEAU

Have a simple form with lean staff. Excellent companies have underlying structural forms and systems that are elegantly simple. Top-level staffs are lean. Middle management layers are practically non-existent. The ratio of supervisors to non-supervisors is very low, meaning actual producers and workers are abundant. In fact, it is not uncommon for excellent companies, grossing billions of dollars a year, to have a corporate staff of fewer than 100 people.

Have routine and preventative maintenance programs. Excellent companies know exactly what maintenance needs to be done and when it needs to be done. They have a policy that is clearly documented and communicated to equipment maintenance people. In excellent companies, every major piece of equipment has a maintenance log positioned in an obvious place where one can confirm that the routine maintenance schedule has been followed.

Excellent companies also have preventative maintenance programs for their most important machines to help reduce the risk of having them break down when production requirements are highest. They also have a written policy, which allows only one piece of major equipment to be down for refurbishing at any one time, thus minimizing lost production hours.

Innovate all aspects of their business. Excellent companies seek to be innovative in almost every aspect of their business including pricing, personnel policies, distribution, sales promotion, stationary, signs, etc. – not just in their products and services.

Know how to create value out of nothing. Excellent companies have the ability to take something that has very little value and convert it into something of significantly greater value.

Love is loyalty. Love is teamwork. Love respects the dignity of the individual. Heartpower is the strength of your corporation.
VINCE LOMBARDI

Know what business they are really in. Excellent companies know exactly what they are selling. They don't sell trashcans; they sell containers. They don't sell cars; they sell luxury sedans. And they don't fragment their company with poorly conceived expansions.

At first, it may seem silly to suggest that only excellent companies know exactly what business they are really in. After all, if there's one thing all companies should know it is exactly what business they are in. However, many companies every year go broke or waste their profits because they are confused about the business they are really in. Consider the following two situations:

1

In 1993, Mr. Kimerdon opened a profitable car rental company that specialized in renting older model cars. He considered himself to be in the budget car rental business. However, when he got into financial trouble four years later and asked for outside help, the bankers looked at him and shook their heads. You see, shortly after opening his car rental business, in his efforts to build his company, Mr. Kimerdon had added a used car lot, a retail car accessories outlet, an auto repair shop, and finally a car wash. In the end Mr. Kimerdon's resources were fragmented. The bankers told Mr. Kimerdon to decide what business he was really in and concentrate on it.

Everything should be made as simple as possible, but not simpler.
ALBERT EINSTEIN

After many sleepless nights, Mr. Kimerdon realized that he should stick to renting older model cars. Over the next year, he liquidated his retail car accessories outlet, sold his car wash equipment and expanded his auto repair shop, used car lot, and rental fleet. After consolidating his company and once again making a nice profit, he began to franchise his operations nationwide.

2

Joe Riley had a small suburban radio and television store. He thought of his business as a retail store, although he also serviced and repaired the products he sold. As his suburb grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work. When Mr. Riley reconsidered his situation, he decided that he was in the repair business. As a result, he profitably built up his repair business and contracted with one of the appliance stores to perform service and repairs.

A Japanese research study found that the top managers knew four percent of the problems in their company while supervisors knew 74 percent. According to the same study, however, workers in the trenches knew 100 percent.
FUNFACT

Listen to people in the trenches. Excellent companies listen to their workers who often know more than their managers. They recognize that their most valuable resource is that knowledge and ingenuity of the people on their front line.

Manage to be highly unified and free at the same time. Excellent companies are both centralized and decentralized at the same time. In other words, they exhibit simultaneous loose-tight properties, which allow them to hold together a barely organized highly productive chaos structured around a few core values. The company tends to operate like a giant octopus able to have fully functional independent arms, yet also able to maintain control and guidance under a central vision.

Organize around teams. Excellent companies organize as much as possible around modest-sized task-oriented, semi-autonomous, mainly self-managing teams. These teams are used as the basic organizational building block to achieve focus, innovativeness, and greater individual commitment. Staff members are encouraged to get out into the field, and become business team members rather than narrow specialists.

Much of Japan's success can be traced to the country's economic disadvantages. Lacking resources, Japanese firms were forced to develop the skills and technologies needed to process its precious resources into higher-value goods.
MICHAEL PORTER
Harvard Economist

Plan for the future. Excellent companies take action backed by a well though-out plan. They also project beyond their initial grand opening, and try to anticipate hoped-for expansion.

NOTE A survey by a group of SCORE members showed that those who attended their workshops were more likely to succeed if they were deemed to be well prepared. Five percent of all those who attended and had received immediate encouragement or a "green light," from their SCORE counselors, had a far higher survival ratio than those who did not receive encouragement and training. In fact, only 12 percent of those attending SCORE workshops actually went into businesses of their own. The 7 percent of the 12 who were judged to be not prepared but went into business anyway, either sent up help signals at later stages or joined the sad statistics of small business bankruptcies.

Regularly update their business plan. Excellent companies realize that having an outdated plan is almost as good a having no plan. They regularly ask themselves:

- What business am I really in?
- What do I sell?
- Who buys what I sell?
- Where is my competition? What makes me better than them?
- How much does it cost to run my business?
- How can I make my operations more efficient?
- What management controls are needed? How can they be carried out?
- Who can I turn to if I need help, either financial or managerial?

I think and think for months, for years. Ninety-nine times the conclusion is false. The hundredth time, I am right. ***ALBERT EINSTEIN***

NOTE Successful entrepreneurs keep their eyes open for changes in their company, industry, market and customers as well as advances in technology. When these changes come, they figure out how the changes affect their overall planning strategy. Once those affects are understood, they change their business plan accordingly and implement new strategies.

Reinvest their returns for compounded growth. Excellent companies invest accumulated surplus funds wisely to produce optimum returns. They understand that fundamentally, the pace at which they achieve financial independence is in direct proportion to their willingness to reinvest – not spend – their profits.

Sell benefits not products. Excellent companies emphasize the benefits of their products and services. They avoid strategies that rely solely on low prices as their most important competitive advantage.

Champions are pioneers, and pioneers get shot at. The companies that get the most from champions, therefore, are those that have rich support network so their pioneers will flourish. This point is so important it's hard to overstress. No support systems, no champions. No champions, no innovations.

THOMAS J. PETERS

In Search of Excellence

NOTE Excellent companies also understand the real benefits of their products, i.e., what they are really selling. If promoting a new computer, they don't sell megabytes and megahertz, they sell increased productivity, fun and ease of use.

Start with a well-defined distinctive competence. Excellent companies concentrate on a narrow product area and a narrow market niche so that their limited resources can be used as efficiently as possible. They distinguish themselves from their competitors by identifying what they are really good at. They especially don't squander their energy or splinter their focus when engaged in innovative activity.

Stick to their area of expertise. Excellent companies never acquire a business they don't know how to run. They don't seek to become part of a monolithic conglomerate. They understand that while there are a few exceptions, the odds for excellent performance strongly to favor those companies that stay reasonably close to the businesses they know.

Good artists copy. Great artists steal.
PABLO PICASSO

Structure themselves appropriately. Excellent companies are soundly organized having the appropriate legal structure, insurance coverage, accounting system, and record-keeping facilities.

Utilize the KISS principle. Excellent companies realize the importance of keeping things simple despite overwhelming genuine pressure to complicate things.

NOTE KISS is the acronym for "Keep it Simple Stupid."

MORE Qualities of Excellent Companies

EXCELLENT COMPANIES . . . believe in the importance of treating people as individuals first and customers second, develop the ability to peak their performances, and differentiate their offerings. Furthermore, excellent companies:

- believe what they are doing is important
- feed opportunities and starve problems
- find the best retail and distribution locations
- have the killer instinct
- maintain their wealth by spending less than they earn and investing the difference
- network within trade associations
- protect their wealth using all legal avenues possible
- realize at some point they may have to walk through a wall to get to the other side and get what you want
- remain consistent under pressure
- take their job seriously

WHY COMPANIES FAIL

AN UNSETTLING amount of small businesses do not survive beyond their first five years. Exceptions to this rule have proven to be small businesses that start out as franchises of nationally known companies or purchased businesses that have previously been successfully run by former owners.

However, it is interesting to note that most business failures can be traced back to poor planning and the inability of a business to adapt and meet new demands. What this means is that potentially, most business failures can be prevented, by avoiding pitfalls that can kill profits and learning to recognize the danger signals of impending change and what to do as a result of them.

You can't pick up a jellyfish by the corners.
MCGEORGE BUNDY

Below is a collection of the most deadliest small business sins and reasons why companies fail. If you can avoid making most of the mistakes on this killer list as well as anticipate the impact of "Acts of God" and other uncontrollable influences, then you'll be well on your way to beating the statistics and attaining prosperity.

Companies Fail Because They Are Badly Managed

Companies fail for many reasons, but they seem to fail a lot quicker if they are being run by owner-managers who frequently make the wrong kinds of decisions, have numerous weaknesses in their personalities and skills, and have narrow-minded inflexible business philosophies. **More specifically, BAD MANAGERS:**

Believe a business is a business is a business. Bad managers believe that all businesses are pretty much the same and that if they can read a financial statement then they can manage anything. Bad managers also believe that people, products, and services are simply resources they have to be aligned properly to get good financial results.

According to the Dun & Bradstreet's 1991 Business Failure Record: 63.6% of businesses failed due to economic factors, 20.1%, financial reasons, 9% disaster, 3.7% neglect, 2.2% fraud and 1.2% inexperience.
FUNFACT

Believe all you have to do to increase quality is start inspection programs. Bad managers believe that quality is like everything else – that you can simply order it done. If necessary, they believe that good quality control starts by tripling the quality control department. They don't seem to care that the quality control force per unit of production in Japanese auto companies is a third the size of those in North America. Bad managers also like to think that if they just show the workers that management means business, quality will skyrocket.

Believe big is better. Bad managers believe that big companies can always get economies of scale i.e., the bigger you are the more buying power you have, thus the cheaper you can get parts etc. However, they don't seem to understand that companies that get too big too fast are likely to become grossly inefficient.

Believe if they just find the right incentive, productivity will increase. Bad managers believe that if they give people big, straight-up monetary incentives to do things right and work smart, all productivity problems will go away. They often like to over-reward their top performers and periodically go off on a witch-hunt and weed out the 30 to 40 percent of dead beats who really don't want to work.

Believe in making appearances look good no matter what the truth. Bad managers hustle from quarter to quarter trying to make sure that quarterly earnings don't stop growing. They carefully manage the cosmetics of the company income statement and balance sheet, to make them look good to outsiders.

Fans don't boo nobodies.
REGGIE JACKSON
Baseball Player

Believe it's all over if the company stops growing. When bad managers run out of opportunities within their own industry, they like to buy into industries they don't really understand, in the hopes that they can continue growing.

Easily become content. Bad managers like to relax once they get to the top of the mountain. However, soon they lose touch of what's going on in the valley and trenches.

Fear change. Bad managers often carry around with them a fear of change – that change is threatening and the status quo is the only safe road. They don't like "bashing bureaucracy" through new "horizontal" management systems because they are the bureaucracy.

Have difficulty delegating. Bad managers like to reserve every decision for themselves out of fear they otherwise would lose control. They also don't like to defer problems to their front-line people for they believe that no one can do the job as well as they can. Bad managers also try to be everywhere all at once, and often run around from one idea to the next without ever really finishing anything. They also have great difficulty telling people what to do for fear of offending them.

If the blind lead the blind, both shall fall into the ditch.
ECCULUS 25:1 BIBLE

Have poor interpersonal skills. Bad managers can't work with people and like to hide away in their office.

Lack experience. Bad managers are incompetent and lack line experience as well as managerial experience. They are often the bosses' son or uncle's nephew.

Like power. Bad managers like to think, "Hey chump. I'm bigger than you so you better listen." They also like to think they know more than their workers and that essentially their workers are losers. They pride themselves on having a big car, cute spouse, and better looking kids. They believe that workers are fundamentally ants that once in a while need to be stepped on.

Like to analyze everything. Bad managers think that if a little analysis proves to be good, then more analysis will prove to be better. Thus, they like to do things like use budgeting as a model for long-range planning; write volumes of planning materials whose main content is numbers, and set hard numerical targets on the basis of their projected forecasts forgetting the fact that most long-range forecasts are bound to be wrong the day they're made.

Like to appear mysterious and untouchable. Bad managers like to distance themselves from the organization they run or work for. They look at company goals chiefly as a means to enhance their own ego, and strangely enough require the same sort of compliance without commitment from their subordinates. They continually blame supervisors and subordinates for incompetence or ignorance, thus absolving themselves from accountability. Bad managers are oblivious to the fact that they ivory-tower management style results in shoddy work, reduced productivity, and a growing sense of distrust, disloyalty, and leaderlessness among workers.

It's not whether you get knocked down. It's whether you get up again.
VINCE LOMBARDIE
Coach for Green Bay Packers

TIP To avoid this deadly small business sin, as a manager become more aware of the potential impact of your power, both positive and negative, and be held accountable for your decisions. You must bring the qualities of strong human character – such as trust, substance, morality, and leadership – back to center stage.

Like to control everything. Bad manager believe that a manager's job is to keep things tidy and under control. They like to specify the organization structure in great detail; write long job descriptions;

develop complicated matrix organizations to ensure that every possible contingency is accounted for; issue orders from on high; make black and white decisions; and treat people as factors of production.

Like to stick to their plans no matter what the consequences. Bad managers like to get rid of disturbers of the peace, or anyone else who objects to the target goals of their plans no matter how sound the objections. Implementation, or execution, is always of secondary importance. They'll put 300 engineers on a new idea if necessary, and replace the whole management team if the goals outlined in the plan are not met. They believe that a manager's job is decision making; to make the right calls; make the tough calls; and not to worry about peoples' feelings.

Keep on going and chances are you will stumble on something . . . I have never heard of anyone stumbling on something sitting down. ***CHARLES F. KETTERING***

Tend to adopt an impersonal, almost passive attitudes toward company goals. Bad managers never actively embrace their company's strategic objectives or attempt to inject them with a touch of personal passion. Bad managers live in a "ho-hum" twilight zone.

Companies Also Fail Because They . . .

Borrow more money than they should. Companies fail because they borrow money unnecessarily or at a rate higher than they can afford to pay back. They fail to understand that interest and repayment schedules can severely constrict cash flow.

TIP To avoid this deadly small business sin, limit burdensome institutional debt.

Buy more inventories than they can afford to carry. Companies fail because they buy more goods than they can realistically sell at a profit. They fail to understand that slow-moving inventory, no matter how good of a deal they get from their suppliers, can quickly choke them into bankruptcy.

Don't find a fault. Find a remedy.
HENRY FORD

Buy too much, too little or the wrong kind of equipment. Companies fail because they don't take the time to figure out exactly what they want their equipment to do over the next five years. Thus, they tend to buy everything all at once; to take care of their immediate needs with little regard for their future needs. Companies also fail because they don't buy enough equipment to be able to meet their customers' needs.

Cater to the wrong kind of client. Companies fail because many entrepreneurs start out with the fear that they will not get enough business. Thus, they choose clients who they otherwise would've avoided and end up courting overly demanding time-hoggers and reluctant payers.

TIP To avoid this deadly small business sin, don't waste time doing the mating dance with clients who can't dance.

Charge too little for their products or services. Companies fail because they make the mistake of filling their days with work for low-paying clients or by trying to win clients by positioning themselves as the lowest-cost guy on the block. They start out by saying, “Well, it only costs me this much to be in business, so I only need to charge this much.” However, they soon find out that there is a reason why everyone else charges what they do.

TIP To avoid this deadly small business sin, study what your competitors charge and set your fees comfortably close to the midpoint. Make sure that you define your business by some quality identifier – the key service you provide, your speed, your knowledge, or your talent – not how cheap you are.

It takes five years to develop a new car in this country. Heck, we won World War II in four years.
H. ROSS PEROT

Don’t make the effort to develop a loyal customer base. Companies fail because their business philosophy is to literally rape customers, rather than treat them with respect. They make the mistake of negotiating every deal like they’ll never see or need the customer again.

TIP To avoid this deadly small business sin, treat everyone you meet like a potential client or potential client reference. As well, learn to cultivate clients and find suppliers who you believe will remain loyal to you for the long term.

Don’t patch up differences between partners or employees. Companies fail because they ignore internal conflicts to the point that they become irreconcilable.

13 Reasons for Retail Business Failure

	Causes of Failure	% of T
1	Insufficient profits	40.7%
2	Industry weakness	16.5%
3	Heavy operating expenses	13.9%
4	Disaster	9.0%
5	Inadequate sales	4.8%
6	Burdensome institutional debt	4.0%
7	Business conflicts	2.5%
8	Fraud	2.2%
9	Insufficient capital	2.2%
10	Noncompetitveness	0.9%
11	Lack of line experience	0.7%
12	Poor work habits	0.6%
13	Poor location	0.5%
	OTHER	1.5%
	TOTAL	**100%**

Business Failure Rate After 3 Years or Less

Age of Business	3 years or less
Retail Trade	22.6%
Manufacturing	18.9%
Wholesale Trade	16.6%
Services	19.4%
All Types Combined *	17.8%

*Other categories not shown but included in total are agriculture, forestry, and fishing; mining; construction; transportation and public utilities; and finances, insurance, and real estate

Source: Extracted from the Dun & Bradstreet Corporation. "Business Failure Record Annual: 1991"

Left unresolved or ignored, “people problems” can quickly destroy morale, productivity and profits. Partnerships and even corporations can be ripped apart by conservative vs. aggressive management styles. If you and your partner for example, don’t get along because your personalities are mismatched, it is just a matter of time before your business begins to crumble.

A new business opens in the USA. What are the chances that it will not survive more than one year? 1 in 4. More than 2 years 1 in 2

A. JAMES FIX

The Odds Almanac

TIP To avoid this deadly small business sin, try to hire or work with people who are inspired by one another’s differences rather than threatened.

Don’t really understand their customer needs. Companies fail because changes in their customer's preferences and competitors’ products leave them in the dust.

TIP To avoid this deadly small business sin, get to know who your customers really are, what they want now, and will likely want next.

Don’t seek advice when they need it. Companies fail because they refuse to seek help when they need it. Either their ego won’t permit it or they don’t know where to get it.

TIP To avoid this deadly small business sin, acknowledge that occasionally you will need outside counsel. In fact, chances are that other companies have had the same problem you are having. You can learn how they handled it by keeping in touch through business networking groups, on-line bulletin boards, and informal relationships with other business owners. Remember, don't make the mistakes other people have for your behalf.

Don't take the time to write a good business plan. Companies fail because they think they can rely purely on instinct to guide their business instead of a written plan. They can't see how a plan can help them focus on where their company is going and why, as well as tell them how they're doing along the way.

Believe you are defeated, believe it long enough, and it is likely to become a fact.
NORMAN VINCENT PEALE

Likewise, companies also fail because they develop poorly researched business plans that cause more harm than good. Badly written plans do not correctly define or simplify complex goals and objectives; do not have detailed implementation plans with tasks, schedules and responsibilities, and do not state goals and objectives in quantifiable terms that can be measured.

Fail to adapt to sudden changes in the marketplace. Companies fail because they are unprepared for sudden changes in their industry, technology or competitiveness, or changes in consumer preferences for different products or services.

Fail to adequately train their staff. Companies fail because they inevitably slip into the nooks and crannies of mediocrity by refusing to provide regular guidance to their staff. It's ironic that many companies spend 50 to 70% of their money on peoples' salaries. And yet they spend less than 1% of their budget on training.

TIP To avoid this deadly small business sin, continually educate your staff about such things as the importance of providing knowledgeable, efficient and quality service.

Fail to check credit references on new customers.

Companies fail because they lose too much money on bad debts caused by bad clients, especially those businesses that

Small Business Failures by Industry: 1990 to 1994

Industry	90	91	92	93	94
Average (failure rate per 10,000 firms)	74	107	109	90	74
Agricultural, forestry, fishing	50	65	80	64	62
Mining	88	95	99	73	62
Construction	88	95	99	73	62
Manufacturing	91	128	129	109	91
Food & kindred products	91	122	133	116	82
textile mill products	97	135	158	139	98
Apparel, other textile products	114	177	191	191	146
Lumber & wood products	97	129	122	98	86
Furniture & fixtures	151	223	226	174	139
Paper & allied products	105	129	128	124	102
Printing & publishing	74	105	118	100	78
Chemicals & allied products	86	128	129	101	89
Petroleum refining	83	137	161	78	73
Rubber & misc. products	101	134	113	119	92

sell goods. In fact, doing business with customers who aren't really sound can put you out of business quicker than anything else.

TIP To avoid this deadly small business sin, make sure you check the references of all new key customers. Don't rely on your gut feelings.

Fail to follow up on overdue accounts. Companies fail because they aren't firm on collections. They don't seem to fully realize that sales mean nothing if you can't collect them.

Small Business Failures by Industry: 1990 to 1994 (continued)

Industry	90	91	92	93	94
Leather & leather products	113	114	95	120	127
Stone, clay & glass products	80	111	107	85	74
Primary metal products	123	157	152	104	91
Fabricated metal products	90	135	145	128	90
Machinery, exc. Electric	84	105	117	107	79
Electric & electronic equipment	114	149	157	124	108
Transportation equipment	147	198	158	140	114
Instruments & related equipment	68	106	92	83	81
Transportation, public utilities	94	134	126	99	77
Wholesale trade	77	109	113	73	55
Retail trade	65	90	76	78	66
Finance, insurance, real estate	60	90	87	68	52
Services	49	87	93	65	50
Total (# of establishments that failed)	60,747	88,140	97,069	86,133	71,520

Source: "Statistical Abstract of the United States, 115th ed." 1995, No. 862 & No. 1246.

TIP To avoid this deadly small business sin, wholesale establishments that extend credit should set up multiple step collection policies. On the other hand, small service establishments, should not be afraid to pick up their phone and say, "Hello Mr. Smith, this is James from Macmar Enterprises. I'm afraid your bill is past due; I'm calling to find out when exactly you plan to pay us?"

The bigger you get, the more employees you will have, and the more "people problems" will result. ***SUPERTIP***

Calling overdue clients is important for several reason: it speeds the money coming into your business and shows your client that you mean business; it gives you the chance to find out if there is a good reason why your client isn't paying – such as a dispute over your service that is solvable; and it makes you aware of serious financial difficulties your client is facing that may warn you to discontinue servicing them until their account is brought back up to date.

Fail to include taxes and insurance premiums payable in their profit projections. Companies fail because they don't set aside enough money to pay self-employment taxes; health, life and disability insurance; along with their living expenses and retirement plan contributions. In fact, many first-year entrepreneurs often end up borrowing money in April to pay their taxes.

Fail to project cash flow needs. Companies fail, because in the euphoria of starting a business, they overlook the gap between making their first sales and banking the money. Often the wait ends up becoming too long, and before any corrective actions can be taken, the new company runs out of cash.

Fail to safeguard against unforeseen variables and "Acts of God." Companies fail because they don't take precautionary measure to protect themselves from increases in energy costs, internal leakage due to theft and reduced consumer spending. Furthermore they fail to protect themselves from:

- "Acts of God" such as fires, hailstorms, floods, tornadoes and earthquakes
- breakdown of machinery or motor vehicles
- higher labor costs
- increased fees and taxes
- increased interest rates
- inflation
- loss of a key employee and the resulting lost of time and money needed to acquire and train a replacement
- plain old bad luck
- raw material shortages
- slower collections than anticipated
- sudden insurance or security needs
- unexpected losses of customers or clients
- unexpected new trends that require unscheduled expenditures

We all make mistakes. Unfortunately, it seems we all learn best from those lessons we inflict upon ourselves. ***POWERPOINT***

TIP To guard against such uncontrollable conditions, protect yourself by being versatile, easily relocated, and able to tighten up operating costs. Also, protect yourself by having a flexible inventory set-up and cash flow budget, access to a credit line, and a special reserve fund to draw upon in case of an emergency.

Hire relatives or friends. Companies fail because they hire relatives and friends, who need a job, yet lack the skills to be successful in their designated position.

80 percent of all new businesses disappear within ten years.

A. JAMES FIX

The Odds Almanac

Lack commitment. Companies fail because they don't really want to be in business in the first place. Soon after they open customers and investors catch on to this indifference and do the only reasonable thing that could be expected of them – abandon ship.

TIP To avoid this deadly small business sin, realize that lack of commitment is often caused by fear of failure.

Lack financial feedback systems. Companies fail because they aren't able to accurately determine where they stand, at any moment in time, and thus mismanage their finances.

TIP To avoid this deadly small business sin, implement an accurate system of recording and analyzing key data, so you can easily determine whether you are floating or sinking.

Lack profits. Companies fail because even if they have healthy sales, their profits can shrink due to high interest rates, high overhead and fierce competition.

Lack sufficient start-up capital. Companies fail because despite the fact that their fund raising efforts fail to meet their target start-up cost projections, they go ahead and open their business anyway. Companies also fail because they don't budget sufficiently for costs incurred during their first few months of operation, or until their business is turning a profit. In both cases, their business will suddenly grind to a halt when their expenses catch up to them.

Let expenses and costs get out of hand. Companies fail because they lack methods of controlling their expenditures and costs. Lack of controls can result in the gross mismanagement of funds, reduced profits and eventually lead to serious cash flow problems and bankruptcy.

You cannot be anything if you want to be everything.
SOLOMON SCHECHTER

TIP To avoid this deadly small business sin, implement control measures to monitor the cost-effectiveness of your location including local taxes, labor costs, changes in traffic flow, and the entrance of tough new competition into your market. Trim when necessary – remember – only survival counts.

Likewise, if you manufacture a product, always look for ways to make it cheaper while maintaining the same level of quality. If you don't you can be sure that someone somewhere else will and then will put you out of business in short order.

Furthermore, and most importantly, implement a budget to limit your spending. This budget should factor in what you will live on while you're building your business, where you will find the cash or credit to implement your marketing plan, and what you will say when you banker asks you how much you expect to be making three years from now. A few pencil, paper, and spreadsheet sessions should be your starting point. Your budget should also factor in inventory needs, borrowing needs and losses due to theft.

The good Lord set definite limits to man's wisdom, but set no limit on his stupidity – and that's just not fair.
KONRAD ADENAUER

Lose their market share. Companies fail because they are unable to attract new customers and progressively lose more and more old customers to competitors.

TIP To avoid this situation, realize that losses in market share, resulting in reduced sales, are usually caused by poor product selection, poor market targeting, ineffective advertising, competitively weak positioning, inventory difficulties, changes in product needs, reduced consumer spending, poor service and poor location, most of which can be prevented by better planning.

Never know when to quit. Companies fail because even though a certain promotion has proven itself to be very unsuccessful, and there are no indications that things will likely change in the future, they hang on to it hoping for a miracle. Eventually, their propped up dead horse sucks the company dry.

Over-specialize. Companies fail because they back themselves into a corner.

TIP To avoid this deadly small business sin, be able to alter your identity and the nature of your business at the drop of a hat, to satisfy the needs of new and different clients. For example, if new legislation demands that everybody have a paved sidewalk, then if you are an efficiently run concrete basement pouring company will be able to change gears fast and cash in on the new market.

People let you wander around in mediocrity as long as you want. But at the top of the hill, enemies await.
SAM WYCHE
Cincinnati Bengals Coach

Overextend their operations and find it difficult to consolidate. Companies fail because they aggressively expand into areas that may not be warranted, and then are unable to rein themselves in. After a certain point, the are no longer able to eliminate overlaps, duplication, and waste and thus restore their efficiency.

Overspend. Companies fail because they make big personal expenditures to show off, indulge whims, build their company image, or woo markets that are out of their league.

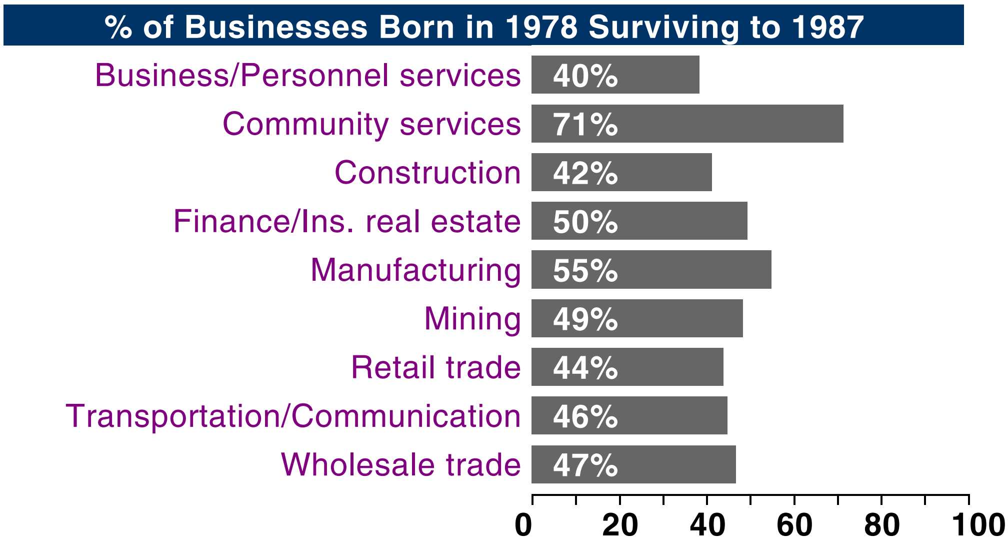
TIP To avoid this deadly small business sin, don't spend a dime until you absolutely have to and can't do it any other way. Remember that many great North American success stories have emerged from humble beginnings. In fact, if you are selling a service, a skill, or an expertise, how much more do you really need than a desk and a phone?

Overstaff. Companies fail because they have an oversupply of personnel who do not produce.

TIP To avoid this deadly small business sin, don't hire employees until it is absolutely necessary. That means do your best to contract out work and use answering services, sheltered workshops, part-time high school students, and the like. Also, be careful not to get stuck with inflexible labor contracts.

Pay more taxes than they should. Companies fail because they don't take the time to learn how to lighten their tax burden.

TIP To avoid this deadly small business sin, realize that as a small-business owner/manager, you're entitled to many tax benefits not available to other taxpayers.



Source: ESBO, Statistics Canada

Put the fate of their business in the hands of one or two clients. Companies fail because they give one or two clients too much power over their business. Most people start a business to achieve a certain level of independence. But realistically, how independent will you become if one of your clients happens to be responsible for more than 70% of your sales. This kind of client may keep your business afloat, but it can also distort your business and keep your from balancing your workload. It is like having a 500 lb., gorilla for a pet.

According to the U.S. Statistical Abstract 114th edition, in 1992, 660,800 businesses started: 97,069 failed. ***FUNFACT***

TIP To avoid this deadly small business sin, diversify you customer base, and never put more than 40 percent of the company eggs into one basket.

Start to take their customers for granted. Companies fail because they begin to treat their customers as a bloody nuisance whose unpredictable behavior damages carefully made strategic plans and whose activities mess up their expensive computer operations. Furthermore, they grow impatient with customers who stubbornly insist that purchased products should live up to their claims.

Try to be all things to all people. Companies fail because they attempt to tackle too many things at once. Quickly their focus becomes scattered creating an unclear image in the eyes of the consumer.

TIP To avoid this deadly small business sin, don't try to be a savior and supplier to everyone. Realize you can't be all things to all people. Focus your business towards your proper market niche and yourself to what you can do best.

Try to reinvent the wheel. Companies fail because they try and revolutionize an industry. They get so caught up in their own vision of the future that they fail to see that people basically have not idea what they're trying to accomplish and can't be bothered to find out.

Growth for the sake of growth is the ideology of the cancer cell.
EDWARD ABBEY

Understaff. Companies fail because they try and do it all on their own. However, even modest initial success can overwhelm a company that is not properly staffed.

TIP To avoid this deadly small business sin, realize that you might be the key to everything but you cannot DO everything and grow at the same time. In other words, once your business requires a band, avoid trying to play all the instruments yourself.

Undertake risky fiscal alliances. Companies fail because they get involved in risky relationships with unconscionable suppliers or too-tough bankers/lenders and thus frequently get shoved up against a wall.

TIP To avoid this deadly small business sin, keep funding elastic. Have some resources in reserve so you don't have to resort to drastic measures.