The Seven Deadly Sins of Business

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Most businesses that fail do so because of their owners' "sins." Usually it's not for lack of hard work. On the contrary, most owners put in long hours. The problem is that owners don't succeed for working hard; they succeed because they produce results, plan ahead and optimize their resources. Working hard is no guarantee of success. With this in mind, here are seven common causes of business failure. In their own way, each of these "sins" can undermine an organization, sabotage results and ultimately lead to business death. Read them carefully. If you're guilty, "Go and sin no more."

Deadly Sin #1: Drift and Squander
Owners drift when they harbor no vision of their dream store. Remember: "Without vision, businesses perish." Owners squander resources when they fail to set strategies that drive their company's growth. Together, goals and strategies are the catalyst for growth. It's not news, but a sad reality that "drift and squander" describes the plight of many small businesses with fewer than 10 employees (and even some larger ones, too). Their owners continue to "do" business (that is, directly serve customers) instead of "run" it. They reap bitter fruits: (1) Burn-out, working strictly for take-home pay; and (2) "Flat-out," building no company-equity. They own a job, not a business. When they retire or sell out, they receive the market-value of tangible assets, but nothing for their years of hard work.

Redemption: Articulate your dream business in writing; then determine the strategies that will drive you there. Be strategic!

Deadly Sin #2: Waste Cash
Avoiding bankruptcy requires thrift. Thrift is easy when you have no cash, but it's much harder when you are flush. Cash tempts business leaders to spend. Some forget that cash-in-hand is not spendable cash. Accrual-based accounting measures the flow of value, not the flow of cash. Many companies plunge into bankruptcy while showing a profit on their P & L. The cause of death: Lack of cash.

Redemption: Determine your spendable cash by preparing a quarterly statement of cash flow. Ask yourself, "How effectively did we exploit our three cash-sources: operations, selling assets and borrowing? In operations, how much cash flowed in through sales, and flowed out through expenses, accounts receivable, inventory, and accounts payable?" Next, prepare a "Forecast of Cash Flow," to estimate future cash expenditures. If you foresee a need to borrow, confer with your banker before you actually need it. As the saying goes: "Bankers lend to the rich, not the poor."

Deadly Sin #3: Run in the Dark
For 10 years, Frank ran his business in financial darkness. Once a year, he looked at his financial statement, but didn't know what he could learn from it. Ignorantly, he believed he was doing okay if he had cash to pay bills and a bit leftover. That ignorance led him to waste both money and opportunities.

Redemption: Assure that you receive three financial statements by each month's fifth day. Analyze the key numbers by comparing them to your forecast and your prior period. The key numbers are sales; gross profit margin, expenses, accounts receivable, and inventory as percentages of sales; inventory yield; accounts payable; net operating cash flow; sales per salesperson and per employee; return on total assets; and current ratio.

Deadly Sin #4: Operate from the Hip
In many companies, the cost of not doing business equals net operating profit. That is, if we did everything correctly and avoided the cost of fixing errors, we could double profits. Common errors include botched orders to suppliers, mis-measures, overlooked tasks, resources wasted on searching for something, and inefficient employees scrabbling to fill in for co-workers who call in sick. Such sins we call "operational inefficiency."

Redemption: Establish operational systems. You may like being independent but the truth is franchises survive at a much higher rate because they have systems in place that maintain operational excellence. Design your organization's structure: create and enforce job-standards and procedures, write detailed job descriptions, and hold employees accountable for measurable outcomes. Let your systems do the "science" part, so employees can invest their energies in the art of serving customers. Systems enable ordinary people to accomplish quite extraordinary things.

Deadly Sin #5: Copy Your Competitors
Trying to beat competitors at their game only cuts profit-margins. The best you can hope for when trying to imitate a competitor is to look just like they do. Even when you succeed, you lose ... and price becomes the only difference. You keep pricing yourself into lower margins, and inevitably you invite business-suicide.

Redemption: Don't sell price. Always sell value. When you sell value, expect to lose some shoppers (perhaps 20 percent). But don't lament the loss. Price-shoppers incur costs, not profits. Serve them as a charitable donation, if you wish, but not as regular fare. You can sell value when customers find your offering is both distinctive ("I just can't get the same service anywhere else!") and valuable ("I never have to worry about delays or hassles; I can count on them!") Customers won't believe you're the best until they know you're different. Refuse to compete on someone else's racecourse. Build your own and become remarkable.

Deadly Sin #6: Seek Mere Satisfaction from Customers
Satisfied customers don't come back nearly as often as loyal customers. Your surveys may report a high percentage of "satisfied" customers, but don't expect them all to buy again, or to recommend you to friends. Satisfied customers can be seduced by a lower price or a new product. Far more important are loyal customers. They won't walk away to save a nickel.

Redemption: Work to build your customers' loyalty. Ask them what they like about your business. If it's your service packages, products or prices, they can be lured by competitors. If it's your service or your people, they can resist competitors' bait. Respect your employees, so they in turn respect customers. Respected customers become loyal.

Deadly Sin #7: Ignore Your Employees' Productivity
The seventh profit-reducer is low employee productivity. Most workers (per various surveys) admit they put in "just enough effort" to keep their jobs, but they could produce more if they were inspired to do so. Are most of your workers complacent? It's a "sin" to do the business so intently that you ignore their productivity.

Redemption: Calculate: (1) your cost of payroll as a percent of sales; (2) sales per salesperson; and (3) sales per employee. For salespeople, track their closing rate, average ticket, credit sales, and gross profit margins. Then, study the data: are they exceeding industry averages and meeting your expectations? Over time, has their productivity degenerated? (It will, until you install systems to regenerate it.) Next, tell them, again, what you expect. Then, help them achieve it. Send them for training. Observe them working. Point out all below-par performances, inefficiencies and errors. Explain your motive: not to carp, but to enable. You seek to facilitate their success by optimizing their skills. You want them to become the best. Then, as soon as they progress, recognize their growth. Your sincere concern will regenerate their enthusiasm for work.

Now, ask your self which of theses seven deadly sins are you committing? (If you do admit to any, you're better off than those who commit the eighth deadly sin: pride or thinking they're perfect.) That sin is the lack of awareness of the other seven. Now that you know: Go and sin no more!

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