

# CHAPTER 1

## The Facts of Business Life

**J**ust as there are facts of life that affect us on a personal level, there are facts of life that affect us as businesspeople, and business owners who ignore them are essentially setting their businesses up for failure rather than success. These Facts of Business Life apply to every aspect of owning and managing a successful business—from maintaining control to strategic planning, from protecting assets to marketing, and from leadership to establishing and managing appropriate policies and procedures. And when these facts are recognized, understood, and acted on appropriately, they can literally make the difference between success and failure.

The sad truth is that less than 30 percent of businesses last more than 10 years, and most failures occur in the first few years of operation. Some of those businesses are doomed from the start because they are ill-conceived, poorly planned, or lack the working capital to attain success. Still others fail because their owners sabotage their chances to succeed through arrogance, lack of ethics, or misunderstanding what the role of an owner actually is. There are, though, other businesses—which I believe to be the majority—that could be successful but aren't, simply because their owners don't understand these Facts of Business Life.

And what are these facts? They represent the seven business concepts that every entrepreneur or business owner who hopes to succeed must have in his or her toolbox, including exhibiting leadership, maintaining control, protecting the company's assets, planning, marketing effectively, having a warrior mentality, and understanding business. There are, of course, other important business concepts, but after many years of running a number of successful businesses and studying successful businesses managed by others, I have come to the conclusion that these are the seven essential concepts without which no entrepreneur can succeed or reach his or her potential.

But it's not enough for you, as a business owner, to just understand these seven facts. It is equally important that you recognize how these facts are interrelated. Very few things in life work in isolation, and that's true of managing a business as well. If, for example, you are very adept at planning or marketing, that's a good start. But being able to develop strategic plans or market your product or service well will mean little if you don't have a good understanding of business in general. Similarly, while possessing leadership skills or knowing how to maintain control in an organization will be of enormous help in enabling you to manage your company, unless you're equally good at protecting the company's assets and have a warrior mentality, it's unlikely that you will ultimately be successful. In other words, you have to be good at all these things if you want to make sure your company will still be here 10, 20, or even 30 years from now.

Finally, although understanding the facts and recognizing their interrelationship are essential, there is one other concept you must understand if you hope to attain success. And that's the concept of the business life cycle—that is, there are various levels through which every successful business must progress over the course of its lifetime. Businesses, like people, go through various stages of life, and it's important to understand both what these stages are and how they affect the implementation of the Facts of Business Life. In this chapter, I provide an overview of the seven facts, and in the next I discuss what the business life cycle is and how it impacts making use of the facts.

## The Facts

As I've already mentioned, there are many things an owner needs to know if he or she wants to start, build, maintain, and eventually sell a successful business. And because there are so many, no book—or, for that matter, series of books—could possibly teach you all of them at once. As with the facts of everyday life, some of them have to be learned at the beginning, and some can be learned as you go along. The following seven facts are the ones you need to understand right from the start if you want to build a strong foundation for your business.

### *Fact 1: If You Don't Lead, No One Will Follow*

Good business leadership begins with defining both the direction and the destination of your company. But it doesn't stop there. It also requires you to quickly develop a set of skills and to continuously improve on them as your company moves forward. These skills include being calm under pressure, disciplined, motivational, realistic, and able to effectively communicate your vision of success, among others. In other words, as with all the other Facts of Business Life, leadership is something that must be recognized, understood, and acted on every day.

One aspect of leadership is developing a culture in a company that's based on expectations, and rewarding those who meet or exceed these expectations. A good leader makes sure that such employees are not only recognized but also financially rewarded, as this kind of positive reinforcement helps focus the entire company on the things that really matter. Another is developing a culture that enables employees to deal constructively with the kind of problems that inevitably come up in any business. For example, imagine a patron in a restaurant who complains to the waiter that he is not satisfied with his meal. If the owner has developed an appropriate culture, the waiter will apologize without hesitation and do whatever is necessary to satisfy the disgruntled customer. As a result, the customer is not only satisfied, but because he was treated so well he is considerably more likely to come back. The owner who has developed this kind of culture has made it possible to turn a

negative situation into a positive one, in the process strengthening the entire company.

Some people argue that leaders are born, not made, and there is probably at least a bit of truth in this. However, there are a great many aspects of leadership that can be learned, and if you are intent on making your business a success, it is imperative that you develop them.

***Fact 2: If You Don't Control It, You Don't Own It***

If you don't control your business by defining the key tasks that must be handled every day, and dictating how those tasks will be handled, you don't control anything, you don't own anything, and you probably won't be in business for long. The concept of ownership control is this simple. This kind of control, however, can be achieved only through teamwork, which occurs in successful companies when people (employees), products (or services), and processes (internal procedures) work in unison. Essentially, people deliver the products by following the company's internal procedures, and it's these processes that operate the business.

A good example of why this is so important is what happens when an owner fails to establish procedures at the point of delivery. If there are no specific procedures, every employee handles customer delivery based on his or her own standards, which means every customer is handled differently. This presents a problem not only because it's never good for customers to be handled inconsistently, but also because the customer delivery point triggers a series of important internal events, including customer follow-up, inventory control and reorder, financial accounting, and others. And if these aren't triggered in a consistent and correct way, not only will the company not have the inventory its customers want, the company itself won't have the critical data it needs to make sound decisions.

But even if you do tell employees how you want the business to operate, it will never happen unless proper controls are designed and implemented to make sure employees do what's required.

Without controls like these, there is a good chance that serious problems will develop, and you may not recognize them until they've become crises. Unfortunately, when owners are faced with crises, they have to act on them immediately, but at this point they have relatively few options available to them. Similarly, if you don't establish and maintain a professional dress code, your employees are more than likely to use their clothing to express their individualism. Of course, doing so is perfectly acceptable outside of business hours, but business isn't about individualism, it's about conformity and a common goal, and it has to be controlled. The fact is that even though you may have your name on the business, if you don't control how the business operates, all you're really doing is observing a business you've invested in. And that's no way to run a company.

***Fact 3: Protecting Your Company's Assets Should Be Your First Priority***

Many people are likely to be surprised by this Fact of Business Life, because they think that a company's first priority should be sales, profits, and growth. But while sales, profits, and growth are important, it is equally if not more important to focus on protecting your assets because they power your sales, profits, and growth. Assets include equipment, accounts receivables, cash, and all the other items on your business's balance sheet. But there are other assets on which you can't put a dollar value, like your skills and experience; your employees and their skills and experience; the company's processes, customer base, and reputation; and others. And even though these assets do not appear on any balance sheet, they all have value and should accordingly be treated as if they had a cash value. And this means you must do whatever has to be done to manage and protect them.

For example, in order to build and maintain a company's customer base, you have to focus on developing processes for keeping existing customers as well as training employees to find new ones. If, however, you concentrate on finding new customers at the expense of providing after-sales service to existing ones, it's likely that those existing customers will go elsewhere. Protecting

and managing a company's assets is one of the most underappreciated business issues today and, if mismanaged, can be one of the most damaging ones. But if you understand what *all* of a company's assets are, and that they *all* have to be protected, you are much more likely to see your company not only survive but succeed.

***Fact 4: Planning Is About Preparing for the Future, Not Predicting It***

Nobody knows what the future will bring, but you can make educated guesses based on the most current, accurate information available as well as your own past experiences. That means gathering and making use of such information as past sales, expenses, and profit results; the size of the market; and competition and customer demographics, just to name a few. Doing so enables you to look into the future and start anticipating what opportunities or threats may present themselves, as well as to make sure that you have whatever is needed to prepare for them. Although people frequently think planning is limited largely to the early stages of a business, it's actually an ongoing activity, or at least it should be.

It's important to remember, too, that planning is both a science and an art. The science is in gathering pertinent information, and the art is in taking that information and turning it into a plan that will move the business from "here to there" over a specific time period. In fact, being able to plan better than one's competitors is such an important skill that it can provide a company with a competitive advantage in the marketplace. If, for example, an owner knows there is a new product coming on the market and proactively plans for it ahead of time, he or she can "own the market" before the company's less aggressive competitors are even thinking about it. This is similar to something the Ford Motor Company did in 2008 and 2009 when careful planning enabled it to see the coming restriction on bank lending. Being proactive, they were able to raise capital before the tightening of lending regulations, which their competitors, General Motors and Chrysler, did not. And because Ford's management "read the tea leaves," unlike GM and Chrysler, their company didn't run out of cash and need

a government bailout. They knew, as you should, that planning is important because it focuses owners on what's important and prepares them for what lies ahead.

***Fact 5: If You Don't Market Your Business, You Won't Have One***

Marketing and advertising are business realities. Without marketing and advertising there are few sales, and without sales there is no company. If you can't or don't want to work to market whatever product or service the company is going to provide, you should seriously reconsider the decision to become an owner. It doesn't matter if your company has the best product available or is the best at whatever it does. If not enough people know about it, it won't make any difference. The need to make potential customers aware of your company—to get the company's message out into the marketplace—never goes away, and only companies that are relentless in doing so remain successful.

For example, an owner of a new company has the huge challenge of letting the marketplace know that a new business is open. At times like this, money is usually very tight and large expenditures, such as marketing, tend to make owners extremely nervous. But the fact is that if marketing isn't done, very little good will happen. And if you understand this, and will make the necessary effort, you will have a big advantage over those who are afraid to spend their money or who view marketing as an expense rather than the investment it is.

Another example of the importance of marketing is the situation in which a company has been offered an opportunity to buy some merchandise at a significantly discounted price, but only if they will order twice as many of the items as they normally would. All things being equal, under normal operating conditions the company would likely be unable to take advantage of an opportunity like this. But if they were to develop a marketing and advertising campaign to sell the item and pass on the discount to the customers, they would be able to attract new customers, increase their market share, and in the process create additional profits. In other words, marketing and advertising are weapons that

businesses can't afford to not take advantage of because of the potential they have to drive sales and profits.

***Fact 6: The Marketplace Is a War Zone***

Every company has competitors, and if it doesn't and it's successful, it soon will. Successful owners know they have to fight not only to win market share but to retain it as well. In fact, the reason they've become successful is that they've developed a warrior mentality, and it's this mentality that enabled them to survive and succeed in the first place. Successful owners also know that past success is no guarantee of future success, and that the only way to remain successful is to maintain their fighting mentality.

If, for example, a new competitor arrives in the market either by buying one of your competitors or starting a new business, the marketplace is likely to change. In a situation like this, you may well have to be more aggressive if you want to protect what you have, that is, retain your market share, much less increase it. But the market will also change if a competitor closes down his or her business. In that kind of situation, a void is created in the market, and it will be only the more aggressive owners who step in to fill that void, take advantage of the opportunity, gain market share and new customers, and at the same time increase sales and profits.

In other words, as an owner, in order to be successful or remain that way, you have to continually focus on the market, react to it, and fight for what you believe should be yours. The marketplace *is* a war zone, and if you don't think of it that way, your competitors will, and they will be the ones who win the war.

***Fact 7: You Don't Just Have to Know the Business  
You're in, You Have to Know Business***

Understanding one's industry is obviously a must, but in order to become successful in any business an owner must also understand how business itself works. That means he or she has to not only

understand the Facts of Business Life but must also be familiar with the various aspects of business, such as accounting, finance, business law, and personnel issues, to name just a few. In addition, an owner must understand how the facts, and the various aspects of business, impact on each other so that he or she can make intelligent decisions.

A good example of the importance of this might be when an owner, seeing a market opportunity, buys a competitor by using a significant amount of working capital from his or her existing business. As a result, both companies are strapped for cash and limited in their potential for growth or expansion, if not in even more dire circumstances. If this owner, however, had a better understanding of accounting and finance and had completed a working capital analysis, as well as doing cash flow calculations, he or she could have foreseen the cash squeeze problem and avoided it by finding other means of funding the purchase.

If any proof is needed of the importance of having a good understanding of business, all you have to do is look at what often happens when the owner of a business decides to retire and turn it over to one of his or her children. More often than not, when this happens, the son or daughter who takes over has spent a few years working in the business and a few more helping the owner run it. But a lot of family businesses don't do as well when they are passed on, and one of the primary reasons for this is that, even though the new owner has some experience in the business, he or she often doesn't understand the various facets of business and how they are all interrelated. And the result, unfortunately, is that a perfectly viable company, one that its original owner spent years building up, now has a questionable future.

Colleges and universities understand the importance of having an overall understanding of the many concepts of business—it's why they insist business students choose a major but also take other core business courses. The fact is that if you don't have a good general idea of how business works, it puts you and your company at a distinct disadvantage when compared to competitors who have developed this understanding.

## **The Business Life Cycle**

In business, as in life in general, nothing remains the same. There are so many variables beyond our control that, when it comes to ourselves as well as to our businesses, the only way we can be sure to not only survive but flourish is to adapt to the changes that are taking place around us. There is, however, one aspect of both business and life in general that we can expect and, to some extent, prepare for—and that's maturing. Of course, people don't mature in exactly the same way that companies do, but both people and organizations go through a life cycle. In life, we start as newborns, then grow into infants, toddlers, children, teenagers, young adults, adults, middle-agers, and, eventually, seniors. Companies, by comparison, go through five stages—or levels—of life:

1. Ownership and Opportunity
2. Creating Your Company's DNA
3. From Survival to Success
4. Maintaining Success
5. Moving on When It's Time to Go

I will provide more explanation about these five levels in the next chapter. For the moment, though, it's important to recognize that, just like people, businesses need guidance as they go through their life cycle, and it's the owners who are ultimately responsible for providing that guidance. It's equally important to recognize that, just as the guidance a parent provides a child must change as the child grows older, the guidance an owner provides over the lifetime of a company must change as the company moves up from one level to the next.

The seven Facts of Business Life are essentially a means of providing guidance for a company. What that means, though, is that while the facts are always true, their application will change depending on where the business is in its life cycle. We have all seen businesses that come out of the gate hard and fast, have a big impact in the market, and then fizzle out, never reaching their potential. What that means is the owner provided appropriate guidance to

enable the company to get off to a good start, but wasn't able to adapt that guidance to the successive levels of business. Making that transition successfully, ensuring that your company will continue to be successful, requires an understanding of how these seven concepts change as the business matures, and your ability to adjust to those changes.

