

BY PAUL WINANS



What Often Kills a Business ... and How to Prevent It

A business is a fragile entity. Contracts need to be signed. The projects need to be estimated accurately and brought in on budget. The financial reports must be reviewed regularly to ensure they are accurate. Clients need to feel smart because they worked with the business. While all of this is going on, the company must be building a significant cash reserve, just in case.

And all of the above always needs to be happening.

What are the alternatives? Perhaps contracts are not getting signed because “Your price is too high,” so the company starts cutting its margin. There is so much pressure to move projects through design and estimating that the resulting plans, specs, and scope of work are incomplete, leading to loss of profit as the projects that do get signed are finished. Because the owner is often the salesperson and is now distracted and distressed, the financial reports are not given proper attention, leading to the possibility of even greater problems and, sometimes, embezzlement. The company’s reputation in the community drops as former clients share their experiences with their friends.

The outcome? Debt.

Debt, once it starts to accumulate, grows and grows. It is incredible how large it can become before a business owner finally realizes how bad things are.

It is difficult, but not impossible, to recover from a large amount of debt. The recovery process entails some of the same steps that avoiding debt does. Here are some of them.

CONTACT YOUR CREDITORS

Once the light bulb goes on and the owner has accepted reality, it is important to contact the company’s creditors. Some will be fine with deferred payment. Others will accept a payment plan, with modest monthly payments. There will be those who insist on getting their money sooner rather than later.

Take all the input from your creditors and lay it out in a spreadsheet. By seeing it month-by-month, you can assess the company’s ability to make the needed payments on time.

If it cannot make the payments, then you need to meet with those creditors that you think might give you some flexibility.

Do not avoid meeting with your creditors!

To a great degree, your trade contractors, vendors, and professionals *are* your company. And they need your business. Engage their help in your efforts to get out of debt.

CUT OVERHEAD EXPENSES

It amazes me how much money a business can spend in overhead without getting the results it thought it was paying for.

The most egregious example is marketing. The company hires a marketing company to provide a range of services that are supposed to bring in more business. But the marketing company gets paid for activity, not results. The company is left high and dry.

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Rent paid to someone else besides the company owner is another item that can often be reduced. Yes, the location of the office might be great, but the company is losing money.

Look at every item in the company’s overhead. Question it.

Keep in mind that the company is now in survival mode. Is the amount of money being spent on this item bringing us value? Or is this item really needed?

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BUDGET REALISTICALLY

Get honest about the signed business the company has in hand and the gross profit dollars that are expected to be generated from that activity. Not what you hope will be generated, but what you think based on the company's usual outcomes. If X percent slippage from estimated to produced gross profit percent is typical, then factor it in.

Often a company with significant debt actually has a fair number of signed contracts. It simply has not been estimating accurately. Get real to survive.

IMPROVE YOUR SALES SKILLS

Improving your sales skills so you are able to sell at a higher gross profit percentage is one of the most powerful ways to get out of debt or to avoid getting into it in the first place.

Read books on how to become a better salesperson. Meet with business owners who impress you with their sales skills. Meet with fellow contractors who you think are outselling you.

From every book read or interaction you have, take at least one tip and give it a try.

Contact the Service Corp. of Retired Executives (SCORE) and see if you can work

with a retired salesperson, who might be able to coach you, often at no charge to you.

After every sales meeting you have with a potential client, assess what went well and what could have gone better. Do more of the former and less of the latter in your next sales meeting.

Avoid signing contracts with potential clients you know are not a fit for your company just because "I really need the work." Some of the worst jobs we ever did were for such people. They cost us money; they didn't make us money.

SET ASIDE 5% TO 10%

Every time a payment comes into the company, set aside a given percentage to build a cash reserve. Five percent adds up over time. Only by building up a cash reserve will you give the company the protection it needs going forward.

If you are not in debt, the best way to avoid debt is to do everything that I am suggesting. These are all sound business practices. The road back from crushing debt is hard. Do the best you can. That is all you can do.

Look at every item in the company's overhead. Question it. Keep in mind that the company is now in survival mode. Is the amount of money being spent on this item bringing us value?

But don't kill your business by simply hoping things will get better on their own.

Paul Winans sold the 30-year-old remodeling business he owned with his wife, Nina, and is now a consultant and facilitator for Remodelers Advantage on owner issues, business management, and best practices. Paul's new book, The Remodeling Life: A Journey from Laggard to Leader, is now available on Amazon. Learn more at winansconsulting.com.