Profits Start Between Your Ears (Part I)

Some time ago I found myself in a heart-wrenching conversation with a business owner I've known for several years. His company, despite his refusal to admit it, was teetering on the brink of bankruptcy.

He seemed to have everything he'd need to run a successful business and have a great life. He's a great guy with a loving wife and family. He's intelligent, energetic, hard working, and honest. His business is located in a mid-sized metropolitan area with a solid economy. But, for some reason, he just hasn't been able to get it going.

He and his business continued to struggle year after year until he finally ended up calling me, and we had this very difficult discussion about bankruptcy. The most frustrating thing about it is that the solution to his dilemma resides within him.

Having this conversation made me question once again why it is that some business owners can take a company with few resources, a small market area, and strong competitors, and turn it into a goldmine. At the same time, other guys with seemingly everything going for them can't quite get ahead.

In nearly 20 years of working with small business owners, I've discovered this much: profitability in a business does not start with the quality of the product or service they sell. It doesn't start with employees, markets, or competitors. It isn't even determined by the current state of the economy. The root of profitability in small businesses is deeply embedded between the ears of the business owner —it's what he believes he *should* be earning in profits.

Let's start with this understanding. In small businesses (and here I'm talking about companies with up to $10 million or so in annual sales), profits and personal income share the same space in the owner's head. So, when we talk about profits, we're really talking about the owner's personal income.

At the risk of oversimplifying this whole discussion on profitability, let me say this. We grow our profits at the rate that we learn to accept money in our lives. As a result, there really is no good or bad rate. There is simply the rate we've chosen to live with. This is also why, if we say we want to increase profits in our businesses, the place to start is by looking inside ourselves and deciding what we can live with.

After we've settled with ourselves what we can live with, then we can get to work on our businesses to earn that money. Raising prices, cutting expenses, and increasing sales are simply tactics for acquiring the money we feel we should have. But, if we per-form these tactics without first believing we should have more money, we subconsciously sabotage our own efforts. Here are some ways we do that. We raise our prices without controlling our spending…so then there's no net gain in profit. We cut costs without increasing or at least maintaining sales…and we eventually run out of costs to cut. And if we increase sales beyond our internal comfort level, we find all kinds of creative ways to get rid of our new-found profits.

Next I'll discuss some of the underlying causes of our beliefs about money.