

Sound Advice (Part I)

“Business decisions need to be made on real data—on an unflinching assessment and analysis of how your company is doing. When you start making decisions based on what you wish were true, you’re going to make some pretty bad calls.”

This is the advice of Barry Sternlicht, executive chairman of Starwood Hotels & Resorts Worldwide.

This is great advice whether you’re the head of an international chain of luxury hotels or the head of a business with four employees. But, too often as the owners of small businesses, we ignore the real data. Too often we base our business decisions on wishful thinking (or, as a client of mine refers to it, “living in a world of tomorrows”). Sometimes we simply turn a blind eye to information we don’t want to see.

Facing the real data in your business frequently means somebody is going to have to make some tough decisions. Since you’re the guy whose signature is on the bottom of the company checks, that somebody is probably going to be you.

Over these next three weeks, I’ll highlight four areas where “an unflinching assessment” of your company’s performance can produce big results. But, it will require action on your part.

- 1. Paper-thin profits.** Too many small business owners don’t fully understand just how deep their profits need to be to escape the gravitational pull of negative cash flow.

We all know our businesses need to earn enough money to cover the monthly expenses that get reported on our income statements and to have a positive number on the bottom line. Sometimes that’s enough

to *get by*. But, it may not be enough to *get ahead* in the game.

That bottom-line number also needs to be big enough to cover the monthly “cash flow” expenses that don’t show up on the income statement—things like vehicle payments and line-of-credit payments.

It needs to be big enough to allow us to accumulate the cash we’ll need to feed that monster that knocks on our door every quarter—payroll taxes. And then satisfy his close relative—year-end taxes.

Our profits need to be deep enough to accumulate enough cash in the bank to give us a cushion as we enter the winter months, and to carry us through periods of slow sales. When profits aren’t deep enough, not only is the health of our company compromised, but so is our own health. We find ourselves worrying about which bills can get paid and which can’t. We sweat out making payroll. Or, we wake up during the night worrying about money.

Thin profit margins aren’t always solved simply by increasing sales. Sometimes it’s going to take aggressive action on our part: cutting expenses and curtailing spending. In extreme cases, we will need to sell the company yacht.

The good news is that businesses are designed to make these deep profits. Sometimes we just have to be “unflinching” in our assessment of the data, and take the necessary actions to address it.