A LeaderPerfect Resource

5 Deadly Mistakes Your Small Business Must Avoid

An Action Guide

By Dr. Mike Armour

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A LeaderPerfect® Resource

Printed and Bound in the
United States of America

Published by LifeThemes Publishing, LLC
A Subsidiary of Leadership Development Corporation

Mailing Address
P. O. Box 50655, Denton, TX 76206

www.LifeThemesPublishing.com

FIVE DEADLY MISTAKES YOUR SMALL BUSINESS MUST AVOID

Dr. Mike Armour

Founder of
Strategic Leadership Development
International, Inc.

LifeThemes Publishing
Denton, TX

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Introduction

It's not hard to start a small business. Keeping it going is the challenge.

Statistics suggest that as many as half of all business startups fail within two years. Only 20% survive five years.

As a business and leadership coach, I see five recurring mistakes which leave these kinds of businesses vulnerable.

Let me take you through these five and give you strategies to avoid such missteps yourself.

The typical small business owner puts far more thought and energy into finding startup capital than into developing a concrete business plan for rapidly building cash flow.

1 BUILDING CASH FLOW TOO SLOWLY

YOU WILL HEAR it said that many small business fail due to lack of capital. Either they do not have enough capital when they start. Or they have inadequate capital reserves to weather a downturn later on.

In general, however, the real culprit is not capitalization. It's cash flow. Companies fail because they don't have enough cash flow to pay their bills. And this is particularly true with start-ups and small businesses early on.

Creating early cash flow minimizes the amount of startup capital you need.

Unfortunately, the typical small business owner puts far more thought and energy into finding startup capital than into developing a concrete business plan for rapidly building cash flow.

Some startups, of course, require significant amounts of funding up front.

This is particularly true where initial investments are necessary for equipment, inventory, facilities, research and development, or franchise fees.

In cases like this, the owner has no choice but to focus on finding startup capital.

But this quest for capital must never crowd out the equally vital task of creating a solid business plan which quickly yields positive cash flow. Here is why.

Startups have three basic options for securing essential capital.

- They can recruit investors.
- They can draw on the owner's personal savings and resources.
- Or they can borrow money. This borrowing may include reliance on the owner's personal credit cards or lines of credit.

Whatever their source, these funds are conventionally referred to as "working capital." In reality, they constitute a kind of indebtedness. In exchange for having the benefit of these funds, the company has encumbered itself with an external claim for repayment.

In the case of startup loans, this repayment obligation is obvious. But the obligation is inherent with any source of startup funding.

Investors are entitled to both a return *on* their investment and a return *of* their investment. And this obligation must be settled with cash generated by the business.

As the owner, when you provide startup funding from your own pocket, you are also an investor. And like any other investor, you are entitled to repayment. So, too, are any partners who put funds into the startup.

What can be misleading is that startup funds from owners and partners often appear on balance sheets as capital contributions. But unlike contributions to a charity, which are made irrevocably, with no rights of return, capital contributions to your company are *always* revocable. They can be reclaimed.

Therefore, to the degree that anyone — owner or otherwise — has a claim on the assets of your business, you should think of the company's obligation to satisfy this claim as an indebtedness to be satisfied from cash flow.

Confusing Working Capital with Financial Health

From day one your goal should be to start reducing startup-related indebtedness as quickly as possible. And the only way to do this is to accelerate the build-up of cash flow.

Having money in the bank, in and of itself, is not a measure of financial well-being.

Great success at finding startup capital may in fact prove a pitfall. If a business begins with significant funding in place, the urgency to build cash flow can easily be obscured. After all, there is plenty of money in the bank to pay bills and carry on months of operations.

But to lose this sense of urgency is to confuse financial health with cash position. Having money in the bank, in and of itself, is not a measure of financial well-being.

When cash on hand comes from capitalization, the bank balance merely measures short-term survivability. It means that you have the wherewithal to pay your obligations for the foreseeable future.

But it's not a measure of true financial health.

Cash Flow Is King

Only two sources can generate genuine financial health. The first is sustained positive cash flow from operations. The second is appreciation in the value of assets.

Unless your business is an investment enterprise (such as real estate), few business startups have assets with potential for significant near-term appreciation. Thus, for most small businesses, financial health is determined by cash flow from operations.

In fact, even when a business does own assets which are appreciating significantly, cash flow is still king. Until the appreciated assets are either sold or producing income, their value cannot be tapped to pay the company's obligations.

This is where a cursory reading of a balance sheet can leave a false impression. It may show that the assets of your business far exceed your liabilities. But if these assets are not liquid (i.e., either cash or assets which can quickly produce cash), survival is at stake.

There's an old adage that a company can operate at a loss for ages. But it can't operate a day without cash. The smart business owner never forgets this principle.

Cash Flow from Operations

Savvy small business owners also pay heed to one other consideration. They know that it's not cash flow per se, but cash flow from operations which is key to financial viability.

Don't overlook the importance of the phrase "from operations." Operations are not the only business activity that generates cash. Interest on deposits adds to your cash balance. So, too, does the sale of non-inventory assets.

But interest on deposits and the sale of non-inventory assets are not your core business. They therefore do not figure into the equation for determining the health of the enterprise.

To the contrary, selling assets to obtain cash for operations generally indicates that the business is probably not prospering.

It's not cash flow per se, but cash flow from operations that is the key to financial viability.

Cash from non-operating sources, such as earnings on deposits, is important. It gives you added cushion for meeting obligations.

But your attention should stay riveted on cash flow from operations. That's the basis of viability and financial health.

Your accountant (or the financial software that you use to manage your business) will produce a series of standardized reports for you. One is a balance sheet. Another is a profit and loss statement (sometimes called a statement of earnings). Small business owners typically pay close attention to these two reports, particularly the P&L.

They tend to give far less attention to a third report, commonly called the statement of cash flows. Yet this report should never be neglected. It accurately reflects your change in cash position from the beginning of the reporting period to the end.

And it spells out specifically the degree to which the change resulted from operations. If you don't understand anything else in this report, you can certainly understand the line which is typically labeled "Net Cash Provided by Operational Activities." That's the golden number to focus on.

This report is particularly vital if you have an accrual accounting system. In an accrual system, whenever you post an invoice, the amount of the invoice is treated as income. Yet, until the invoice is paid, you have not received cash for the transaction.

In a similar fashion, once you order supplies or incur an obligation for taxes or interest, the profit and loss statement shows them as expenses, even though you have not yet made a cash disbursement for them.

As a result, the net earnings on your profit and loss statement may not accurately approximate your cash flow. The statement of cash flows will give you a clearer picture of where you really stand.

The True Cost of Operations

Since cash flow from operations is king, it's clearly important to know your cost of operations precisely. No mistake is more common among small startups than not knowing their true operating costs.

For example, in your cost of operations, are you including an appropriate salary and benefits for yourself? Many small business owners do not. They see the profit which they take from their company as their salary.

But following this practice distorts the picture of your profitability. Profits should constitute the net of revenues over operational expenses. And operational expenses include the cost of marketing and management which you are providing. Without this cost factored into expenses, any profit calculation results in an artificial number.

No mistake is more common among small startups than not knowing their true operating costs.

To put this another way, Imagine that someone wants to buy your business, not to run it on a daily basis, but to reap the profits. This new owner will immediately incur the expense of hiring someone to perform the services which you have been providing.This salary will then figure into the new owner's cost of operations. What would this salary cost the new owner?

Don't rush by this question. I coach many small business owners who consider their company profitable simply because it produces enough revenue for them to make regular cash draws for personal use.

But if their business is not earning sufficient revenue to show a reasonable profit after deducting an appropriate salary for the owner, the company is not truly profitable — no matter how much the owner takes out of it personally.

So from the very first, set a salary for yourself based on what it would cost to hire someone to provide the services which you perform. Then post that salary every month to your expenses. Do this even if cash flow in the early months or years does not permit you to pay the salary fully.

If you are using accounting software (and you should be), you may or may not want to enter this monthly salary in the software itself. This is especially the case where you are indeed not paying yourself a salary, but living off of the company's proceeds. Should you have an IRS audit, you don't want to be in a position of explaining why your company books show a salary which you have not reported on your personal income tax.

Still, for your own purposes in tracking the health of your business, you need to have a record of this salary obligation in order to know what your true expenses are. You might therefore develop a spreadsheet on which you capture monthly expenses that are not entered into your financial software so that these additional costs are factored into your monthly determination of profitability and adequate cash flow.

Not just your "salary," but other expenses, too, may need to be recorded on this spreadsheet. For instance, startups which are home-based often fail to include office and utility expense in calculating their cost of operations. Or you may be using your personal cell phone or your personal vehicle in support of the business, but not creating expense entries for these items in your accounting software. Again, this distorts the true cost of operations and, as a consequence, the actual cash flow which the business is generating.

Vital Questions

In summary, then, it's absolutely essential to start your business with a clear plan for maximizing cash flow as quickly as possible.

This often means postponing the day when you bring your dream product to market. Unless demand for it is already strong, it's unlikely to generate quick revenue. In your early months as a startup, build your inventory of goods or services around products which are most likely to have a ready and reliable market and which will bring customers or clients your way.

Your dream product can wait. Cash flow cannot.

If your business is already established and generating respectable revenue, do you regularly assess your cash flow and seriously explore ways to improve it?

- Do you know right now how much of your cash position is coming from operations as opposed to other sources of funds?
- Is your cash flow from operations increasing? Declining? More or less flat?
- What does it mean for your business if this pattern continues?

Never take questions like this lightly. They probe the very issues which determine your company's health. There is simply no substitute for sustained and sustainable cash flow.

A marketing plan does not rely on chance to bring people to you. Rather, it lays out specific steps and measures to surface them, engage them, engender their desire to do business with you, and make it as easy as possible for them to buy your product or service.

2 An Ill-Defined Marketing Plan

If the prime requirement is to build cash flow rapidly, then your marketing/sales process must be optimized for efficiency.

Qualified leads or motivated buyers must be surfaced with as little expenditure of effort, energy, and money as possible.

To achieve this level of efficiency, a thorough, well-designed marketing plan is essential. The starting place for developing the plan is the question, “Who is my ideal client or customer?”

Planning then proceeds to a second question, “What are the best ways of surfacing these types of buyers?”

The final stage of the planning process is to systemize a methodology for

- making contact with potential buyers in this pool
- gaining their interest
- motivating them to consider your product or service, and
- bringing them to a decision to buy.

Quit Relying on Chance

As logical as this process sounds, it is neglected entirely by many small businesses, both startups and established companies alike. Their marketing strategy often seems to be, “If we build it, they will come.”

The fact is, thousands of businesses die each year because “they built it,” but not enough people came.

A more sensible outlook is, “If we build it, AND if they know about it, AND if they see the value of it, AND if they want it, AND if it’s accessible to them, they will come.”

Advertising is one element of a marketing strategy. But marketing is much more than mere advertising.

A marketing plan does not rely on chance to bring people to you. Rather, it lays out specific steps and measures to surface them, engage them, engender their desire to do business with you, and make it as easy as possible for them to buy your product or service.

Many small businesses think more about how they will advertise than how they will market themselves. The two are not the same.

Advertising is one element of a marketing strategy. But marketing is much more than mere advertising.

For one thing, your marketing plan helps you determine the right places to advertise and the right audience to reach.

Your marketing plan also identifies the core themes and messages which your advertising message should convey.

Demographics

As we said above, a good marketing plan begins with a clear description of your targeted customer. You need to know this customer both in terms of geographics, demographics, and psychographics.

Geographics, as the name implies, has to do with where your potential customers are to be found. Is your business outreach going to be primarily local? Regional? National? Even international?

Or perhaps your outreach is not to a particular geographic community, but to a virtual community on the web. And there's always the option of reaching out to both geographic communities and web communities simultaneously.

Demographics have to do with observable traits of your ideal customers.

- How old are they?
- What kind of income do they have?
- What is their station in life?
- How much education do they have?
- What are their buying patterns?
- How do they spend their time?
- How many people fall into these categories?
- And of those who do, how many of them are accessible to your business?

If your targeted customers are businesses, the demographic questions are slightly different.

- What size are these companies?
- What lines of business are they in?
- How many of them are found in your primary service area?
- Who do they buy from now?

- What are their typical purchasing budgets for your type of product or service?

Psychographics

Demographics are usually easier to research than psychographics. Psychographics focus on the internal drives of your ideal customer.

Psychographics assess such things as attitudes, values, ideals, desires, and motivations which shape the customer's decision to buy.

In effect, psychographics are helping you answer the question, "What would lead my ideal customer to purchase the product or service which I offer?"

Psychographics also help you answer a second and equally valid question, "What would lead this ideal customer to purchase from me rather than my competition?"

This is not a place for guesswork. Early in the design of your marketing plan you should develop a working hypothesis as to why people would choose to buy from you. But then you need to test this hypothesis against some marketing research.

Even if the research consists of nothing more than personal interviews with several people who fit the profile of your ideal customer or client, it's essential to test your working hypothesis.

Here are some things which you want to learn from your research:

- What is the primary buying criterion for your ideal customers? Quality? Cost? Convenience?

- How much do they see a need for your product or sense the value of it?
- Where else would they look for the kind of product or service which you offer? That is, from their perspective, who constitutes your competition?
- If they are currently buying this product or service, are they generally satisfied with it? Or dissatisfied? What makes for any dissatisfaction?
- How do they feel about other vendors who provide your product or service?
- Are they as likely to buy this product or service on line as in person?
- What are they looking for in terms of good customer service?

A Marketing Plan? Or Marketing Plans?

Dependent on the nature of your business, you may need several marketing plans. If your business fills a narrow niche, then your customer niche is probably equally narrow. A single marketing plan will likely meet your needs.

But if you offer a variety of products and services, aimed at different types of potential customers, you need a marketing plan for each of these customer segments.

Dependent on the nature of your business, you may need several marketing plans aimed at different customer segments.

For instance, if you market to both individuals and companies, you need one marketing plan for individuals, another for business customers.

Or if you have different product lines aimed at different ages, sexes, or income brackets, you should have a marketing plan for each of these customer groupings.

For startups, a marketing plan may be only a few pages long. For established businesses, with a more mature product line or more diverse customer base, a much longer marketing plan may be in order.

The most important thing, however, is to have a plan, regardless of its length.

As a minimum, your marketing plan should include the following elements:

- A description of your primary products or services and your sales goals for each of them
- What appeal you will create around these products or services to make them enticing to customers
- The competitive advantage which you have over your competition in delivering your products or services
- How you will position your business and "brand" it in the eyes of potential customers
- The precise system which you will use to interest customers and then move them through a step-by-step process which turns them into satisfied buyers
- The approaches that you will use to promote your company and its products through advertising, web presence, public relations, and other promotional avenues

- How you will retain customers once they do business with you

- The means that you will utilize to track and evaluate the effectiveness of your marketing

This is by no means an exhaustive list. But unless you have addressed these topics as a minimum, you still have more work to do in putting together a proper marketing plan.

Write it Down, Review it Often

One reason small businesses forego a written marketing plan is because the owners believe that they have a plan in their mind, even though they have never taken time to write it out.

The truth is, we think plans through more thoroughly when we spell them out in writing as opposed to merely carrying them around in our head. There is something about the writing process that forces you to think about your plan in greater detail and to see places where it needs to be shored up.

And pay attention to the phrase, “write it out.” I mean that literally. There’s a benefit to doing this type of planning — or any serious planning, for that matter — using the old-fashioned pen or pencil and paper method. The act of writing takes more time than typing on a keyboard. Neuro-scientists have found that the brain uses this “idle time” to generate additional thoughts related to what you are writing about.

Some of your most creative ideas and insights will often come as a by-product of hand-writing your planning documents and refining them until they are ready to be digitalized or printed with only minor additional input. Don’t short-0000circuit the brain’s creative potential.

Based on my experience as a business coach, the vast majority of small businesses which fail are relying on a marketing plan which is in the owner's head, not on paper.

Write your plan down. Review it often, at least quarterly, and preferably monthly. Revise it as necessary. Share it widely with your workers. Make sure that they understand it. Never let it grow stale.

Systemize It

Most importantly, look for ways to systemize your marketing effort, so that it runs almost on autopilot.

A few years ago I met a young man who originally came to the U.S. from Croatia. He arrived knowing only enough English to greet people.

Studying American business, he quickly determined that buying and selling real estate was potentially a fast track to riches. But since he knew so little about American business culture, or even the nuances of the language, he could not rely on his own wherewithal to build success.

Instead, he examined the way that successful real estate investors went about each element of their endeavor – how they found willing sellers, how they determined the value of a property, how they put together an offer and negotiated the deal, how they financed it, and how they marketed it once they were ready to sell it.

He then took each of these steps, analyzed the processes which went into them, and systemized these processes. Where he could, he actually automated the process.

Once everything was systemized and automated, he could hire others to take care of the individual elements of the business. He could then focus on making the entire system work more efficiently and more successfully.

Long before his English was reasonably sophisticated, he was worth millions of dollars.

Inexpensive marketing services and automation are so widespread today that any small business can economically systemize its marketing effort. It takes time and energy up front. But having both a marketing plan and a marketing system pays unparalleled dividends.

Once you see yourself as selling solutions, not products or services, your business paradigm shifts significantly. Viewed through the new paradigm, products and services become secondary to your business plan.

3

PROMOTING PRODUCTS AND SERVICES, NOT SOLUTIONS

YOUR MARKETING PLAN centers on what you are selling. One of the most frequent marketing mistakes, however, is that businesses fail to understand what they are *really* selling.

When asked, “What do you sell?” they typically respond with a list of products or services. But no one buys a product or a service. They buy solutions.

The solution takes the form of a product or service, to be sure. But neither the product nor service is of interest to the buyer unless it solves a problem, fills a need, overcomes a frustration, provides a diversion, enhances status, enriches their sense of fulfillment, or opens new doors of opportunity.

As one of my colleagues is fond of saying, people don’t buy a quarter-inch drill bit because they are itching to own one. They buy a quarter-inch drill because they need a quarter-inch hole.

Business owners tend to become enamored of their products or services. Often a company's products or services were personally created by the owner. They are like his or her children.

But unlike children, products and services have a shelf-life, beyond which they are obsolete. The length of their shelf-life depends on how long the product or service competitively provides solutions which customers are seeking.

Why Are They Buying?

Business owners are understandably captivated by the question, "What are customer's buying?" They need to know.

The more relevant question, however, is *why* they are buying. Answers to the "why" question point you to the solution which customers are seeking when they evaluate your products or services.

No one buys a product or service.
They buy solutions.

Once you see yourself as selling solutions, not products or services, your business paradigm shifts significantly. Viewed through the new paradigm, products and services become secondary to your business plan. They will come and go as you find better or more profitable ways to provide solutions for your customers.

When small business owners become solutions-focused, they quit asking, "What other products or services could I offer?" Instead they ask,

- How can I improve on the solutions which I provide my customers?
- Where else do my customers have problems or concerns which beg for solutions?
- Which of these solutions could I provide?

These new or improved solutions will naturally take the form of products or services. But the starting question is not about products or services. It's about solutions.

In general asking, "What other *solutions* could I provide?" sparks a more creative range of answers than the question, "What other *products or services* can I provide?"

By focusing on alternative ways to deliver solutions, we are far more likely to think "outside of the box" than if we merely focus on alternative products or services.

To be effectively focused on solutions means being customer-focused. It calls for a deeper level of listening.

The Conversation Beneath the Conversation

Business owners tune in attentively when customers indicate an interest in making a purchase. The ensuing conversation then normally revolves around the product or service which interests the buyer, its features, its price, and its benefits.

But beneath this surface dialogue another conversation is waiting to be uncovered. It's a conversation about why the customer is interested in this product or service in the first place. This conversation centers on the solution the customer hopes to find.

This deeper conversation is vital because it speaks to motivation, along with the customer's sense of urgency and need. Customers don't need a product. They need a solution. If you find or provide a better solution for them, you elevate their interest and enhance their loyalty.

The second reason for paying attention to this deeper conversation is that it can reveal what the customer wants, over and beyond your product or service.

I think of my local hardware store, for instance. Usually when I go there, I know specifically what I want, I know how to use it, and I don't need to interact with a sales person other than at the cash register.

But occasionally I go in looking for a replacement part on a piece of equipment which I've never repaired before. Or perhaps I'm facing a specific challenge on a project and thinking to myself, "You know, I bet there's a product to remedy this problem." So I go to the hardware store to find out.

To be effectively focused on solutions means being customer-focused.
It calls for a deeper level of listening.

This time, in contrast to my other visits, I do want interaction with a sales representative. I enter the hardware store looking for both a product AND expertise.

I also want a sales person who seems genuinely interested in understanding both me and my situation and pointing me to a product which lets me completely overcome the challenge before me.

I've noticed that most customers who frequent this store are also looking for expertise and customer service. The price of the item they buy is only a secondary consideration for them. Their primary goal is to get the advice on which product to buy and guidance on how to use it.

In fact, most items on the shelf are available for lower prices at nearby big box stores. But this little neighborhood hardware store does a thriving business, because it is selling what people *really* want – quick access to knowledgeable sales people who can help them choose the right product.

So what is this hardware store selling? At first glance it seems to be selling plumbing supplies, electrical fixtures, lawn chemicals, nails, bolts, power tools – the shelf inventory which you would expect in a store like this.

What the store is truly selling, however, is accessibility, helpfulness, and expertise. The owner pays his sales people an above-average salary, certainly more than he would have to pay if he merely wanted people to stock shelves and ring up sales.

But he knows that people do not come into his store primarily for the items on the shelf. They come looking for solutions. He is therefore willing to pay for the expertise of sales people who can point customers to the right solution.

On more than one occasion, indeed, I've heard his sales people recommend a product which the store does not carry. And they made this recommendation in the full hearing of the owner! He has apparently instilled a value system which says, "Point the customer to the best solution, even if it's not one that we provide."

At first brush this counter-intuitive approach might seem unwise and ill-advised. But the owner knows that he is not only selling accessibility, helpfulness, and expertise. He is also making his store worthy of trust.

If a store would forego my business in order to point me to the best solution, then I'm likely to turn to them again when I have needs in the future. So the owner gains loyalty by instilling trust, not by selling products at the cheapest price.

Vision and Branding

Focusing on the solutions which you provide also helps you when it comes to branding your company and defining your vision for it.

Few brands are more widely recognized than Yamaha. Just think of the variety of products which bear the company's name. Motorcycles. Grand pianos. Outboard motors. Ski jets. Guitars. The list goes on and on.

On the surface there is no apparent unifying vision behind such diverse product lines. But the vision is very apparent within Yamaha.

Their vision is to be the brand name of choice for people who are looking for products to maximize enjoyment of their leisure time. This sense of purpose allows them to embrace products as far-flung as saxophones and all-terrain vehicles.

Now, helping people have more fun is not usually thought of as solving a problem. Therefore, in the purest sense of the word, Yamaha's vision is not solution-centric.

Yet, in another sense Yamaha is indeed providing a solution. Yamaha aims its products and branding at the question, "If I want to make the most of my discretionary time, what is the best way to do it?"

Whether you call this a solution or merely fulfilling a need, Yamaha knows what it's selling. Every small business should be equally clear on the benefit its customers are buying.

Fast Food Goes to War

During the Second World War, the food industry produced classic examples of building a business by providing a solution.

When the U.S. suddenly mobilized millions of men and sent them to distant battlefields, feeding them became an immediate and immense challenge.

In protracted battles, soldiers were operating far from a base camp which had cooking facilities and a ready supply of food. They had to transport their own food on their person.

However, soldiers needed to go into battle as well-armed as possible. To the degree that food took up space and added weight to their load, it limited their ability to outfit themselves with a full complement of ammunition and grenades,

Enter a group of upstart brands which were introducing America to a completely new eating habit — fast food snacks. Brands like Peter Pan peanut butter. Lays potato chips. Fritos corn chips. All were established brands in limited regions of the country, but unknown elsewhere.

However, these products were light weight, had an extensive shelf life, needed no preparation, and could be packaged to tuck easily into uniform pockets. And importantly, they were high in calories, an essential for sustaining energy under exhausing conditions.

Soldiers came home from the war having developed a taste for these products. And the manufacturing capacity which the brands created to meet the war effort allowed them to become nationally dominant.

From an accounting perspective, they succeeded by selling untold tons of snack foods. But what they actually sold was a solution.

No one is perfect at networking. Some have mastered it much better than others. But it is a mastery that everyone can achieve. The important thing is to network regularly, and to do it to the best of your ability.

4 Limited Networking — or None at All

Small business owners, particularly those who run micro-businesses, are prone to total absorption in the running of their business and their interaction with customers. They make little time for broader networking.

Others see the value of networking. But they get serious about it only when they sense that their company is in trouble and needs new contacts and customers.

Networking, however, is not a stop-gap strategy. Networking should be a sustained, long-range endeavor. Done effectively, indeed, it can result in increased near-term business.

But veteran networkers will tell you that many of the greatest payoffs from networking come months or even years after a relationship was established. There are three primary reasons for this.

First, broad-scale networking will introduce you to many people who, at the moment, do not need (or see a need) for your product or service. Nor can they readily think of associates who may need it.

Yet later – perhaps weeks or months later – their situation may change. If you have maintained contact with them, they will think of you and give you a call.

Second, others whom you meet through networking are slow adapters. They make measured, unhurried decisions about new products, technologies, or vendor relationships. They are not known for hopping on the band wagon early.

Even when they are less than satisfied with a vendor or service, they will endure their dissatisfaction much longer than you might expect.

As a result, these slow adapters are less likely than others to commit to your product or service quickly. They must be groomed, over time.

A pitfall in networking is to simply drop relationships that do not yield immediate business.

Frequently this "slow adapter" approach makes them equally hesitant to recommend you, your products, or your services to a third party. After all, if they are reticent to give you their own business, why would they recommend you to colleagues and friends?

Still a third group of networking contacts may see the need for your product or service. And they may not have a reticence to embrace something new, like the slow adapters.

But they prefer to know you for a while, to watch how you behave and conduct yourself, before they will feel assured that you can and will deliver on what your promised solution.

Sustained Relationships

A pitfall in networking is simply dropping relationships which do not yield immediate business. But some of my most lucrative business has come from slow adapters who, years after meeting me, turned to me for critical services.

So don't write off people like this. Have a plan for periodically helping them think of you.

You obviously cannot devote so much time to them that you ignore contacts who offer a more immediate prospect for business. But occasional mailings, perhaps two or three times per year, briefly reminding them of who you are and what you do, is a worthwhile investment of resources and time.

And of course, when you encounter them in networking venues or at social events, always make it a point to shake their hand and remind them of your name and company.

Critical Networks

There are five networks which a small business owner should continually nurture.

- First is a network of associations where potential customers are likely to be found.
- Second is a network of other businesses with whom you might collaborate or cooperate in product develop-

ment, marketing, sales, or staging your own networking events.

- Third is a network of vendors, suppliers, and service providers who can keep you abreast of “new ways of doing business” which will make your business more efficient or cost-effective.

- Fourth is a network of successful people in your type of business, people who can serve as formal or informal mentors who give you advice, insight, and know-how.

- Fifth is a network of people who are well-connected themselves with corporate and community leaders and thus in a position to make introductions which can quickly open doors for you.

Each of these networking opportunities calls for a different strategy and approach. But none of them should be ignored.

Networking Conversations

Of the five critical networks, small business owners tend to put their greatest energy into building networks that will lead them to potential customers. There is nothing wrong with this priority. Given what we have said about the primacy of cash flow, the quest for customers is inevitably an uppermost concern.

But the energy given to finding customers should never become so all-consuming that there is inadequate time to develop these other networks. To provide time for other types of networking, your networking to find customers should be as efficient and effective as possible.

This means capitalizing masterfully on every networking conversation at events where potential customers are in attendance. Your objective is to engage people in such a way that you can quickly determine whether they are indeed a potential customer.

You don't want to spend 20 minutes at a networking event chewing the breeze with someone who is never likely to buy your goods or services.

On the other hand you don't want to be so pushy that people feel as though they have walked into a sales presentation the moment that they shake your hand.

What you want to do is to word the niceties at the outset of a conversation so that people quickly self-qualify themselves as potential customers.

You do this by having a creative answer ready for the inevitable question, "What do you do for a living?"

When this question is put to most people, they respond with either a job title or a description of what they sell.

Potential customers, however, are not all that interested in your title or what you sell. What engages their interest is discovering that you offer a solution to one or more problems which they have, but don't want.

We've already discussed the importance of being solutions-focused rather than product-focused as small business owners.

Nowhere does this become more important than in our interactions at networking events.

Answering the Inevitable Question

When someone asks what you do for a living, your automatic response should zero in on the problems which you help clients overcome and how you go about it..

The response needs to be brief, concise, and to the point. But done right, it can spark further conversation about what you provide, a conversation initiated by the other party.

By getting the other person to initiate the conversation about your product or service, there is less opportunity for your conversational partner(s) to feel that you have imposed a sales presentation on them.

When someone asks what you do for a living, your automatic response should zero in on the solutions you provide.

Here is how to structure the conversation once people ask the inevitable question about what you do. In the next ten seconds you should say something that leads them to inquire, “How do you do that?” or words to that effect.

You then respond with a slightly longer response, twenty to thirty-seconds long. This second response is designed to trigger a further query from them about what you do and how you do it.

When they ask this follow-on question, you reply by elaborating on your first two responses, but never with a statement which runs longer than a minute.

For this structure to work effectively, you must carefully craft your reply to the opening questions about what you do. It should be worded in such a way that hearers cannot immediately determine what your exact job title or profession may be.

An Example of a Networking Conversation

So, at networking events, when asked what I do, I answer, "I help executives and entrepreneurs meet the most challenging and frustrating demands placed on them as leaders."

At this point the other party doesn't know whether I'm a consultant, a trainer, a coach, a facilitator, a team builder, or some other type of professional.

Few people will reply by merely saying, "Oh, that's interesting," then turn to another subject. And if they do, they have just told me that they are not a potential customer. They clearly feel no need for the type of solutions which I provide.

Most people, however, will follow up with a question. Whatever the wording, the question usually revolves around, "How do you do that?" It's usually phrased as, "Are you a coach? Or a trainer?"

Again, I don't want to let them pigeonhole me with a title. So I respond with a further explanation of what I do, not with my title or profession. My answer is something along these lines:

> *The exact service which I provide depends on the client's needs.*
>
> *Do you know how men and women in leadership must contend daily with the overwhelming pace of change and*

competition? We help them break these challenges down into manageable chunks and gain clarity on how best to deal with them.

Then we create a process to arm them with added resources for meeting these challenges head-on.

The methods we use depend entirely on what's most appropriate for the client. Over the years we've created dozens and dozens of tailor-made leadership solutions for everything from mom-and-pop startups to Fortune 100 companies.

Analyzing The Response

There's more to this response than may immediately meet the eye. So let's analyze it in some detail.

Most of us speak at a rate of a little more than three words per second. The response I've just given is slightly more than 100 words, or about 35 seconds in length. Ideally, this portion of your response should be no more than 45 seconds long.

And notice several elements in the wording of this statement:

• First, it stresses that we customize our approach to every client's needs. This tells the hearers that we put their uniique needs first. Ours is no cookie-cutter approach.

• Second, early in the statement I ask a rhetorical question: "Do you know how men and women in leadership must contend daily with the overwhelming pace of change and competition?" This question serves several purposes.

    - Because the answer to the question is a rather obvious "yes," people feel compelled to assent to it mentally or perhaps even quietly nod their head. Thus, the question engages them and draws them into the conversation more deeply.
    - At the same time the question sets the stage for the rest of my statement by laying out the premise that "men and women in leadership must contend daily with the overwhelming pace of change and competition."
- Third, my response includes an early and purposeful transition from the pronoun "I" to the pronoun "we." This adds to the hearer's sense that I don't come to an engagement by myself. Instead, I can bring an entire cadre of other specialists with me.
- Fourth, the response builds credibility. It conveys that we've been doing this
    - for quite a while ("over the years")
    - in a variety of settings ("dozens of tailor-made solutions")
    - with companies of every size ("from mom-and-pop startups to Fortune 100 companies").
- Fifth, the conclusion of the response makes it apparent that I can cite many examples of how we have successfully applied our approach. I thereby create an implied invitation for my partners in conversation to ask me about some of the companies with whom we've worked.
    - If they take me up on my invitation, I can then reply by sharing one (and only one) of our impressive stories about successful engagements, holding the narrative to no more than a minute in length.
    - The story's narrative will center on how we customized a solution for a notable client.

    - The story will also include specific details of the striking outcomes which resulted. The narrative, in other words, reinforces the basic message which I previously offered in a 35-second summary.

    - Moreover, the story deepens our credibility for the hearer. It shows that reputable companies believe in us, that we have a solid methodology, and that we get exceptional results for our clients.

- Sixth, if they don't ask about companies which we've worked with (despite my implied invitation for them to raise that question), I'm prepared with alternate replies to follow-on questions which they are likely to ask.

    - Again my reply will be no more than 45-60 seconds long.

    - The reply will show how clients benefit from various methodologies and processes that we use, always keeping the benefit, not the methodologies at the forefront.

    - In addition, I would frame the reply so that I could conclude with words along these lines:

Lobbing the Ball

I don't want to belabor this analysis. But these examples illustrate how you can build interest in your product or service by simply making statements which provoke curiosity and lead people to ask questions.

Their questions, in turn, give you permission to elaborate on what you do. Then, at the right moment, you artfully lob the ball into their court to get them talking about their needs.

I usually lob the ball with a statement along these lines:

> *Because leadership is such a passion for me, I'm always curious about what people like yourself see as your most frustrating leadership challenges."*

Notice that I ask about the other party's leadershp challenges without posing the question directly. That's intentional. I want to avoid any perception that the question is the opening line of a sales pitch. *I'm not selling at this point. I'm building rapport and gathering information.* If the other person concludes that I'm shifting into a sales pitch, he or she may become so guarded that my effort to build rapport and gather information is thwarted.

Don't pitch until you've first lobbed.

Thus, I put the question forward indirectly, by embedding it in a straightforward statement. And I deliver the statement with a strong tone of curiousity in my voice. This tone reinforces the phrase, " I'm always curious …" And it further diminishes any sense that I'm teeing up a sales pitch.

When the other party responds by starting to itemize leadership challenges, I've successfully lobbed the ball into his or her court. *It's time for me to quit talking. My job now is to listen, breaking in only to ask insightful follow-on questions.*

My counsel to networkers is, "Don't pitch until you've first lobbed." Lobbing the ball back into the other party's court is vital. First, it helps you identify places where your solutions might benefit your new acquaintance, which is essential for your eventual pitch. It also gets the other person talking.

Interestingly, with most people you build respect, credibility, and "likeability" by letting them talk. They enjoy listening to themselves. So when you give them permission and freedom to hear themselves talking, you gain elevated esteem in their eyes.

With most people, you build respect, credibility, and “likeability” by letting them talk.

And when you give them permission and freedom to talk about something which they truly value — in this case, their business or profession — they afford you even greater respect and credibility.

This same general “lob and listen” approach can be utilized with any type of networking, not just events where you might find potential customers. But the way that you lob the ball back into the other person’s court will change from one type of event to another.

For instance, if you are talking with someone with whom opportunities for collaboration and cooperation are a possibility, your lob statement might be. “You know, your business and mine have a lot in common. If two companies like ours were to collaborate to open new opportunities, how would you advise them to go about it?.”

If instead you are in conversation with someone who might become your mentor, the lob statement might be, “As you can tell, I’m pretty passionate about my business. But I also know how much I still need to learn — especially from people like you who have already built successful businesses. When you mentor people like myself, what’s the most important advice you offer them?.”

Both “lobs” open the door for the other party to express an openness to collaborating (in the first instance) or being your mentor (in the second), without you asking the question directly. You can use their reply to guage whether this is a matter to pursue furrther with them.

You will generally learn that people who have already succeeded are very generous with their time in sharing counsel and wisdom with people who are still building success.

In fact, if someone were to respond to your mentoring inquiry by saying, “No, I don’t really do that sort of thing,” you’ve learned that he or she has neither the outlook nor the attitude to be a good mentor in the first place.

When I started my leadership development company, I took the initiative to contact two executive coaches with immense international followings. I asked for a bit of their time to see how, if they were just beginning, they would build a practice like mine.

Both offered profound, specific counsel which probably saved me years in building the foundation of my business. People will do the same for you. You simply need the courage to ask

Extraverts and Introverts

Networking comes much easier for people who are extraverts than it does for introverts. But both types of people face distinct challenges in effective networking.

Extraverts, by their very nature, are natural conversationalists. They are energized by having one conversation after another. And above all, they love to talk.

Their challenge is to quit talking long enough to give the floor to the other person and not dominate the conversation. They are not naturally artful at lobbing the ball.

Years ago I had a friend who epitomized this type of extravert. As my wife would put it, he talked in commas. He never paused long enough for anyone to slip in a word edgewise.

He often worked alongside another acquaintance, a recent immigrant from Asia who still spoke very broken English. Yet, he had an unforgettable description of our mutual friend: "Him like radio," he said. "Talk, talk, talk. Never listen." If you are an extravert, monitor yourself closely in networking events to see if you "sound like a radio."

Introverts, by contrast, find an endless parade of conversations somewhat taxing, and even exhausting. Their challenge is getting the conversation started in the first place. They usually do not think of themselves as adept at small-talk, and they perceive networking events as a place where small-talk is essential.

No one is perfect at networking. The important thing is to network regularly and to do it to the best of your ability.

But **the real goal in networking is to interest the other person in what you do, then shift into a listening mode to learn more about him or her**.

By scripting the first part of the conversation, as we did above, and by carefully crafting some good lob questions or statements, you can approach networking moments with confidence and assurance, whatever your personality type.

Just don’t make the mistake of trying to craft these conversation starters on the fly, no matter how much you have a gift of gab. Write them out ahead of time. Rehearse them. Get the timing and the inflection just right. Practice your delivery until they feel natural and sound unrehearsed.

By careful advance preparation and practice, you can walk into the networking event relaxed and ready to be yourself. You don't have to be distracted by the nagging question, "Now, what should I say next?"

No one is perfect at networking. Some have mastered it much better than others. But it is a mastery that everyone can achieve. The important thing is to network regularly, and to do it to the best of your ability.

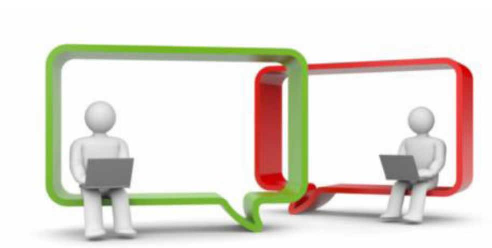
Virtual Networking

In today's world, any discussion of networking would be incomplete without mention of online networking.

Fundamentally there are two types of networking for which small business use the web.

- The first is networking to create interest from potential customers.
- The other is professional networking.

Facebook and Twitter fall into this first catetory. Even though they are called *social* networking sites, many businesses now use them as tools for networking with both current and potential customers.



Using Facebook and Twitter to find customers is actually an extension of web marketing in general. And the strategies you pursue on Facebook and Twitter must complement your overall web marketing plan.

It's beyond the scope of this book to explore the topic of web marketing in detail. But a few observations on the subject would be appropriate.

Respected authorities on web marketing all agree that to market successfully with Facebook and Twitter, you must add fresh content to these media regularly. This means updates to your Facebook page several times a week. And it means Twitter feeds at least daily, if not several times each day.

Maintaining such frequency puts obvious demands on time and energy, not to mention creativity. Because this demand is so daunting, businesses which succeed at Facebook and Twitter marketing usually rely on a staff person assigned specifically to this function. Or they hire an outside contractor to provide this service.

At this point, your startup or small business may be hard-pressed to fund a dedicated staff position like this. Therefore, until the business is better established, you may need to forego extensive use of social networks to find potential customers.

This does not mean, however, that you should have no presence on social media platforms. In today's world, people increasingly check out a company's social media pages when making buying decisions. Having attractive Facebook and LinkedIn pages with basic information about your business adds to its credibility with certain groups of buyers. But your effort to find potential customers through networking should probably focus elsewhere.

On the other hand, using social networks for professional networking is an inexpensive and fruitful investment of time for any startup or small business. LinkedIn is the best known networking site for professionals and business owners. But there are smaller networking sites which are more specialized around specific industries or professional specialties.

If you do not have a LinkedIn account, create one early. Set up an account for yourself, another for your business. Then look for groups in the LinkedIn community which might provide valuable contacts for you. Most groups are open to new members. So you can join those which relate to your business at no cost.

Many of these groups maintain interactive forums on which members ask questions, seeking advice on challenges or decisions which they face in their business. Just reading through these exchanges, and participating in them yourself, is like having a virtual "mastermind group" available to you 24 hours per day.

In fact, one of the best ways to grow relationships on platforms like LinkedIn is to reply to what others have posted with content-rich responses. Join the dialogue, just as you would at an in-person networking event. When people repeatedly see thoughtful contributions from you, it establishes your credibility and their interest in wanting to know you better.

Distant events can disrupt supply chains and do so without warning. Natural disasters, political upheavals, economic crises, and warfare can all choke off the flow of essential goods or raw materials, or drive up costs precipitously.

Changes of this magnitude can easily threaten the very survival of a small business, especially one with minimal cash reserves or one that operates on limited margins.

5 Weak Contingency Planning for Unforeseen Adversity

Murphy's proverbial law affirms that if anything can go wrong, it will. Not only that, things usually go wrong at the most inopportune and unexpected moment.

Yet, while we recognize the reality of Murphy's law, few small businesses make adequate preparation to deal with it.

One of the primary reasons for optimizing cash flow quickly is to build sufficient financial reserves to cope with the unexpected.

Until you have a clear picture of how you would deal with high-impact, adverse developments in your business, your business plan is far from complete. And your enterprise is exposed and vulnerable.

Unfortunately, myriads of small businesses learned this lesson the hard way in the economic meltdown of 2008 and 2009. They failed financially by the hundreds of thousands.

Barely a decade later, millions more suffered a similar fate, when the cornona virus pandemic collapsed the global economy. Although the pandemic imperiled businesses of every size, it hurt no one more than small businesses and sole proprietorships.

As calamities like this demonstrate, wholesale disruptions of markets and supply chains can come at any moment. And when they occur, no business is exempt from their pervasive financial damage.

By the very nature of their operations, international corporations have contended with this threat longer than anyone. Some, like Shell Oil Company, set out decades ago to prepare themselves more fully for unforeseen economic chaos.

In the 1970s, Shell pioneered an approach to strategic thinking called "scenario planning." The basic concept was 20 years old at the time, having first been utilized in think tanks and academic circles in the 1950s.

Shell, however, was the first major corporation to adapt scenario planning in a wholesale manner. This move by Shell came in the wake of two global developments which the energy industry had failed to anticipate adequately.

The first was the sudden rise of environmental regulations taking dead aim at energy companies and at industries which processed and marketed petrochemicals. The second was the rise of OPEC with its cartel-like power to influence world oil prices.

Both were game-changers for an industry which was ill-prepared to cope with them.

The Flaw in Business Forecasts

In analyzing these new realities, and why they had been unforeseen, planners recognized a serious problem with typical business planning.

These plans, they observed, usually forecast the future by making straight line projections of current trends. But today's business world is so globally interdependent that straight-line projections are seriously flawed as forecasting tools.

By their very nature, straight-line projections make no allowance for wholesale disruptions, particularly those brought on by forces and factors beyond a business owner's purview or control. Yet these types of disruptions occur with increasing frequency.

For example, a horrendous Japanese tsunami in 2011 had a devastating impact on the automobile industry. Vital supply chains for key components were so disrupted that automobile manufacturers had to suspend operations.

And it was not just assembly plants in Japan that were affected. Plants in the U.S. could not get parts which they needed to maintain full production. Soon vehicle inventories at auto dealers were shrinking everywhere, all at what should have been their peak selling season.

Today's business world is so globally interdependent that straight-line projections are seriously flawed as forecasting tools.

Disruptive threats come in many guises, including political upheavals, wars, regulatory changes, runaway inflation, health crises, and technologies which make once-profitabl products or services obsolete.

The lesson in all of this is that even the best-run companies can be disrupted by events on the other side of the globe.

The Risk of Commoditization

For many small businesses one of the most disruptive developments in recent years has been commoditization. This is the process of converting a highly personalized service into a commodity in which providers compete primarily on price.

Working in tandem with commoditization is online delivery of the commoditized service. This creates a double whammy for a small business whose competitive edge has always been quality personal service and convenience.

Forced to compete almost exclusively on price, they cannot afford their former standards of personal service. And online delivery robs them of even more of their personal touch.

When compelled to compete on price alone, many small businesses are not up to the task. Particularly vulnerable are businesses which serve as agents or brokers.

There was a time, not that long ago, when travel agencies were common fixtures on the American business scene. In any given city, almost every major retail area had one. Or perhaps two.

Most were mom-and-pop businesses, operated either independently or as a franchise. But where are all of these businesses today? How many travel agencies have you seen lately?

What happened? The service which these agents provided was automated and packaged as a commodity which companies like Orbitz and Travelocity could deliver via the internet. Then airlines, squeezed by rising fuel costs, reduced their commissions to travel agents.

Caught between these two developments, and already operating on thin margins, most agencies were unable to survive.

Even the Big Boys Are Vulnerable

A more recent example of disruption destroying a company is the story of Blockbuster, once a highly lucrative business, the kingpin of the movie rental industry.

NetFlix, seeing an opening, took Blockbuster's commodity (movies on DVDs) and packaged it in a delivery system which was far more convenient, affordable, and user-friendly.

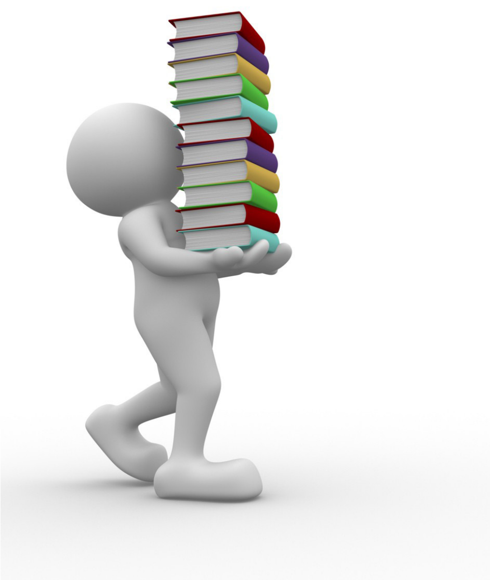
Then, as soon as technology made it possible, NetFlix added the option of instant downloads of movies by any device connected to the internet.

By the time Blockbuster recognized the seriousness of this challenge and responded to it with look-alike services, their doom was sealed.

An equally telling story is the bankruptcy of Borders Books, a giant in the book-selling world for many years. But Amazon appeared on the scene, offering more books than Borders could stock and offering them at margins too thin for Borders to match.

Then Amazon introduced Kindle. Other companies soon brought similar devices to market, most notably the Nook offered by Borders' arch-competitor Barnes & Noble.

These devices, along with the newer generation of smart phones, streamlined the delivery of books. No longer did customers have to wait two or three days for a shipment from Amazon or a backorder at Borders. In only seconds they could have any book they wanted in their hands.



This was the final blow to Borders. They simply had not been fast enough on their feet to respond in time to the disruptive threat posed by Amazon and new technologies.

In short, no one who sells a product or service is immune to disruptive change, neither mom-and-pop businesses nor industry giants like Blockbuster and Borders.

Anticipating Disruptions

Fifty years ago, after being caught off guard by environmentalism and OPEC, Shell realized that even a corporation as big as theirs could be driven under financially unless they were better prepared for disruptions. The company responded with a heavy investment in an alternative to straight-line planning for the future.

They formed a team to think through and describe various potential scenarios which could occur on a worldwide scale and which could have adverse implications for Shell. They also looked at potentially disruptive developments in specific countries vital to the company's operations.

No one who sells a product or service is immune todisruptive change, neither mom-and-pop businesses nor industry giants.

Next Shell chose one of these global scenarios each year and made it the topic of extensive strategic conversations. Managers across the entire company were tasked to wrestle with the question, "What could we do, how should we respond, if this situation were to become reality? "

At first glance, this might seem like a mere academic exercise, of no practical business advantage. But the process had several important benefits.

First, it conditioned people to quit thinking in simplistic, straight-line assumptions about the future. In the process they became more attuned to watching for unfolding developments which held the potential for becoming disruptive. This heightened sense of awareness became something of a corporate early warning system.

Second, Shell's scenario planning fostered outside-the-box thinking about solving problems. In the process of working through these what-if scenarios, many creative ideas emerged which had immediate business application, independent of the scenario under consideration.

In addition, managers grew more accustomed to looking for deeper complexity in problems and issues that they might have formerly considered only superficially.

Third, even though specific scenarios may have never become realities, just thinking them through helped managers later when similar situations occurred unexpectedly. Because of the scenario planning, managers were armed with an arsenal of ideas about how to cope with circumstances of this nature.

What This Means for You

Shell's approach is informative. I'm not suggesting, however, that small businesses should develop full-fledged scenario planning the way that Shell did. Shell's program was resource intensive, a luxury which most small businesses cannot afford.

But nothing prevents small business owners from making time periodically to reflect on adverse scenarios which could possibly arise. The purpose of this exercise is to evaluate alternative strategies for coping with potential disrupters.

The travel agencies which survived the collapse of their industry had anticipated the change early enough that they had time to adapt. Most moved into specialized niches which could not be easily automated.

For instance, some still thrive by specializing in putting together travel packages which can serve as incentive programs.

Their typical client is a large company that rewards top-performing sales people with ocean cruises or getaways to exotic locations or that conducts conferences aboard ships.

Others found their niche in arranging travel to remote locales which are not well served by major air carriers or to underdeveloped areas where accommodations are scarce or challenging to arrange.

Looking ahead and considering emerging risks can be a life-saver for small businesses.

Worst-Case Scenarios

Shell was hardly the first organization to do scenario planning. The military has a long history of what it calls “worst possible case” analysis.

This kind of analysis is part of planning any large-scale mission. Once the operational plan is mapped, it is reevaluated in terms of its points of greatest vulnerability.

A barrage of questions are then asked. What if a certain piece of vital equipment breaks down? What if weather turns foul? What if communication is lost? What if, what if, what if?

Contingency plans are then developed for eventualities which might threaten the mission’s success. The operational plan is ready for execution only when there is an acceptable response plan for the major worst case scenarios.

For small businesses, worst case scenarios tend to revolve around six issues:

- loss of a significant bloc of customers
- loss of critical suppliers or essential materials
- sudden spikes in costs
- disruptive technology which upends or obsoletes products or services which are vital to company revenue
- extended illness or incapacity of the business owner (or some other mission-critical worker)
- loss of investment funding or borrowing capacity

The list begins with lost customers and lost vendors. Every business owner, of course, anticipates customer and vendor turnover. These are more or less routine.

But we are not talking here about routine losses. We are instead referring to wholesale, disruptive changes.

- What if we suddenly lose one or more customers who account for a significant percentage of our sales volume? Or what happens if we suddenly lose the most profitable segment of our customer base?
- What if our most critical supplier goes out of business? Or what happens if multiple suppliers go out of business at much the same time?
- What if artificial intelligence is able to replace the personal services which are our primary offering?

Today small businesses are just as much a part of the global economy as companies like Shell.

Distant events can disrupt supply chains and do so without warning. Natural disasters, political upheavals, economic crises, and warfare can all choke off the flow of essential goods or raw materials, or drive up costs precipitously. Technological breakthroughs from the other side of the world can wipe out entire domestic industries.

One reason that networking is so important is that recovery from major setbacks depends on the strength of your network.

Changes of this magnitude can easily threaten the very survival of a small business, especially one with minimal cash reserves or one that operates on limited margins.

And while small business owners are cognizant of these threats, few have concrete contingency plans for coping with them. They don't have a ready-to-implement response which will allow them to rebound quickly should large-scale adversity strike.

Falling Back on Your Network

One reason that networking is so important is that recovery from major setbacks depends on the strength of your network.

In Chapter 4 we identified several circles in which you should actively build networking relationships.

As you look at this list of networking circles, you will see an immediate parallel between the resources which they provide and the resources which you may need to cope with a disruptive setback.

As part of their scenario planning, smaller businesses should also think through a survival plan for a situation in which they suddenly lose one or more key players.

More so than large businesses (with their deeper bench strength), small businesses often rely heavily on the talents, connections, and industry knowledge of only a few individuals, or perhaps only one.

If these people are unexpectedly removed through death or disability, the small business which has no backup plan may take years to fully recover. Many never recover at all.

One of my clients spent 20 years building a highly successful financial services business. He employed hundreds of workers and had upwards of 2000 independent professionals representing his company nationally.

In spite of this growth and complexity, the founder himself still retained the titles of Chairman, CEO, and president. Then suddenly, at a relatively young age and with no history that should have put him at high risk of throat cancer, he developed this deadly disease.

Fortunately, he recuperated after a year of surgery and intensive therapy. But given the recurrence rate of this type of cancer, he realized the strong possibility that he would face either that disease or a related one again.

It was unwise, therefore, to go any longer without a contingency plan for an eventuality in which he might be taken from the scene by incapacity or death.

He moved immediately to identify and start grooming successors, and I worked with him to develop and execute the plan. Within short order he had a new president in place and an internal mentoring program to groom future leaders.

Before his health problems, he had known theoretically that he needed to develop bench strength. But it took his battle with cancer for him to push this need to the top of his agenda.

From my experience, shockingly few small business owners — even highly successful ones — have meaningful plans or successors in place to cope with the loss of the founder.

If we want the businesses we start to live on to benefit our families, our favorite charity, or some cause, we must provide for our business to flourish, with or without us.

Partnerships Gone Bad

Another worst case scenario should be considered when a business venture takes the form of a partnership: what if the partnership proves unworkable because of differences in personality, business philosophy, management styles, or even ethics?

As a business leadership coach, I'm called on regularly to help partnerships which have gone on the shoals. Many of these wrecked partnerships turn out to be unsalvageable. Resentment, bitterness and distrust are so entrenched that it's impossible to repair the relationship in the near term.

However, I'm yet to deal with a partnership which had a contingency plan for circumstances like this. Partnerships tend to coalesce around an assumption that the relationships will never go bad.

Unfortunately, many of them do indeed turn sour. And when they do, a partnership is one of the thorniest business structures to dissolve. All too often, the dissolution process descends into threats and lawsuits, as ugly as any divorce.

Shockingly few small businesses — even highly successful ones — have meaningful plans or successors in place to cope with the loss of the founder.

If you are thinking of starting a partnership, or if you are in one already, here are some questions you should ask yourself.

- What will be the signs which warn me that the relationship with my partners is deteriorating?
- What will I be prepared to do to head off a breakup of the relationship when I see signs of deterioration?
- If relationships really do become irreparable, how will I extract myself from this partnership? Can I handle the financial consequences of my exiting? And if the break up is really ugly, how will my credibility and reputation in key circles of my industry or profession be affected?

As I've coached clients who were planning to start a partnership, just having them work through these questions has persuaded several of them not to proceed with their plans. Thinking through these issues made them aware that a partnership with the proposed parties made them vulnerable in most discomforting ways.

Being in a partnership gone awry is one of the least productive and least enjoyable circumstances for any small business owner. And where people are neither productive nor enjoying their work, profitability soon goes out the window.

Plan, But Don't Obsess

It's not my purpose here to chronicle all the worst possible case scenarios which small businesses face.

Rather, my desire is merely to highlight the need for business owners to give such scenarios due consideration.

The key is to be attuned to worst case scenarios, but not obsessed with them. When we have given creative thought to such situations, and have a course of action in mind should they develop, they never catch us unprepared, even when they blind-side us.

In Closing

The failure rate for small businesses in the United States is notably high. During the economic meltdown from 2009 to 2010, more than four million small businesses closed their doors for good.

Of course, this situation was aggravated by the weak economy at the time. But even when the economy is strong, small business failures number in the millions.

Interestingly, while four million small businesses went out of existence from 2009 through 2010, five million were started in the same period. The American entrepreneurial spirit is not daunted by the risks which new startups and small businesses must overcome.

Yet no small business can afford to be oblivious to threats to its survival. And while these threats come from many directions, the five which we have analyzed in the preceding pages are among the most critical.

By staying focused on these issues and giving them appropriate attention, small business owners build defense-in-depth against becoming another business fatality.

Dr. Mike Armour

Leadership Coach &
Business Consultant

www.LeaderPerfect.com

Strategic Leadership Development International

Dallas, TX