



Fatal Five

■ Does your business sometimes feel like a monster that never stops feeding? Let's look at the Fatal Five and how to avoid them.

The overhead monster: Have you built your vision before the reality of your financials justified it? Are fixed costs so high an economic downturn threatens the health of your business? Rent or mortgage, payroll, utilities, insurance -- when you're stretching to make the payments, where do you turn when the capital equipment goes quiet?

The solution? Stay lean. Build in stages based on economic performance, not your desire. Pay a premium, if you must, to remain flexible enough to adjust to the marketplace. For every overhead expenditure, ask: Is it necessary?

The entitlement mentality: Without the proper incentive system, employees can decide the business serves them instead of acting from the belief that they serve the business and its customers. They focus on how to pull a bigger paycheck or better benefits.

The solution? Create an ownership mentality instead of an entitlement mentality. Wealth Builders create an environment in which employees know that as the company achieves success, their economic success rises, too. Supplement base salaries with incentives tied to measurable goals. When clients are happy, the business prospers and so do employees.

The wrong partnerships: Strategic allies are the least expensive and most powerful way to increase the value of your business. But too often a business owner ends up with allies and vendors he doesn't trust, who don't add measurable value to the business, who are churning for work instead of the opportunity to deliver results.

The solution? Remember that strategic allies are an extension of your team. They need to be aware of your standards and who you serve. Stay out of contracts without a back door for terminating the relationship.

The wrong customer portfolio: Wealth Builders understand that customers are long-term assets, not short-term sources of revenue. Do you chase quick cash? Do your clients expect champagne-and-caviar service for burgers-and-beer prices? Do they lead you away from the true mission of your company? Do your clients sign on because you compromise your mission or oversell your capabilities?

The solution? Define who your business serves best and strategically build your customer portfolio on that foundation. Have the guts to turn down customers who aren't right for you. Point them in the direction of someone who can serve their needs.

The debt sinkhole: Some debt is good debt, or at least justifiable. Money borrowed to invest in the company or money that out earns the cost of the debt could be called good debt. But if the borrowed money won't improve company performance, if the debt is required to avoid the hard decisions of adjusting to the marketplace, it's bad debt. It can take you under.

The solution? Get honest and get tough. Borrow only to improve service to customers and increase the value of your business asset. Don't borrow to supplement revenue; instead, accommodate your business structure to market conditions.

Slipping into one of the Fatal Five decisions often forces an owner to step into another. Smart owners know their enemies and how to avoid them.