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## Seven Deadly Sins ?

*From sloppy accounting to poor hiring, here are the business-killing traps that every entrepreneur must avoid.*

### Sloppy accounting . . . . .

Done properly, accounting is a diagnosis of everything that's right and wrong with your company. You should be able to complete a pro forma income statement at the beginning of the year that shows your recipe for making money. Crucially, you need to understand the ratio of sales to expenses that will result in profitability. You want to be able to say, "This business needs to gross \$800K for me to have a \$100K profit," as opposed to merely saying, "I hope I can make \$100K one day."

### Unrealistic pricing . . . . .

You must truly understand your costs, which include often-neglected components like scrap, freight, damages, theft and obsolescence. Once you do, you need to figure out what your cost of goods sold (COGS) number must be for you to make money. Keep in mind that your selling price is not your average selling price -- you have to factor in discounts, which will increase your COGS number.

### Naive hiring . . . . .

It takes patience and skill to hire the right people. Busy entrepreneurs can easily be romanced by the applicant who says, "I work hard and I'm a fast learner. I just haven't had the right opportunity." Here's the trick to smart hiring: Call references, ask them the right questions, and listen hard to their answers. Key question: "If Bob is so great, how come he doesn't work for you anymore?" I want to hear this kind of reply: "Bob is brilliant. I'd rehire him in a second, but his wife got transferred." A long silence at the other end of the line tells me this candidate isn't worth my while.

### Fear of firing . . . . .

No sane person enjoys letting people go, but it's necessary if you want to run a great company. As in any competitive endeavor, it's critical to have the best people. It's easy to keep mediocre employees around, especially when they are nice and loyal -- but it will hurt you sooner or later. Here's a good test: Would you be relieved if anyone on your team quit tomorrow? If the answer is yes, you've got a problem.



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## Seven Deadly Sins ? [ continued ]

### Lack of standards . . . . .

One of your main jobs is to set standards in such essential areas as quality control, customer service and the company's public image. In my picture framing business, the standard for quality control is arm's-length inspection: If you can't see a problem at arm's length, you're fine.

### Lack of controls . . . . .

It's easy enough for customer service failures, pricing errors and quality issues to get lost in the shuffle. You need to identify and fix these problems before they do lasting damage. In my business, one out of 200 times there's a problem with a framing job: the wrong mat, the wrong color and so on. Every screwup gets a "hot ticket" assigned to it. The mistake gets fixed, and every month I have a record of what the problems are and who's causing them.

### Poor branding . . . . .

Recently I gave a speech to an audience of appliance dealers. I told them to focus on the layout of their stores, their signage, even how their employees dress. One dealer said, "We tried that branding thing and it didn't work." Wrong answer. In business you brand yourself every day in a million ways. The real question is whether your branding helps or hurts your bottom line. Most entrepreneurs aren't naturally talented in all seven of these areas, and that's the reason a lot of businesses fail. But failure is a great teacher. Learn and you will earn.

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