

Two Mistakes that Every Business Owner Must Avoid

There are two mistakes to always avoid...especially in a difficult market.

Understanding and positioning your company for the next economic cycle is critical to developing the performance necessary to increase your wealth through the power of your business. Once you know what to do it's much easier to know what to avoid.

Careful review of the following two principles can help your business weather the storms that we have today in the economy.

1. Never Run Out of Cash: It's axiomatic that you should never run out of cash in your business. However, what is critical today is to understand exactly what has happened to most businesses. As the economy has turned down and sales have dropped, accounts receivable have been collected from prior periods. This anomaly has caused many people to feel they are in a much better cash position than they really are.



As the economy recovers Accounts Receivable and Work-in-Process will also increase. These normal current asset changes are going to have a dramatic impact on every business that operates and improves at the sales line. What is often difficult to understand is just how much cash would be consumed by working capital in a growth cycle. In normal times, growth much in excess of 15% per annum will put a strain on most businesses. In a recovery cycle percentage growth can be buried by what appears to be small absolute growth in working capital requirements. It's these incremental changes that happen faster than normal. They can put a business owner in the exactly the place they don't want to be.

To avoid this situation, every business owner should first understand the "cash conversion cycle" in their business. With this knowledge of the cash conversion cycle, and some basic estimating skills it is easy to predict the amount of working capital required for a growth cycle. Sale improvements will end when the cash required to support that growth is not available. Without this knowledge in hand, and the support of financial institutions, a business can get into exactly the wrong cash position at the wrong time.

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So plan for the growth you want and understand the cash needed to support that growth. Otherwise, you may find yourself running out of cash, which is something you always must avoid...especially in times when banking institutions are less understanding. There is also little expectation that the pressure banks are under will change. Consequently, you should expect borrowing to be more difficult than at any time in the last few decades.

2. Never Operate without a Written Business Plan: It is surprising how many business owners reasonably expect their businesses to operate without a written business plan. What these business will never know is how much more effective and what greater results they would have if they had taken the time to do the thinking and planning required to document where they want to go and how to get there. That is really the essence of business planning: determining what the businesses will look like at a certain point in the future and what must be done to achieve that end.

Each step of the way should be planned to make sure that the results are achieved. All major objectives can best be realized by developing a detail project plan with clear responsibility and scheduled targets identified. One of the many things that's critical to success with business planning and operations is to have a measurement system.

If you would like to assess and boost your planning to the next level...grab a copy of: [Bounce Back – Survive and Thrive in a Business Crisis](#). The information in this book will provide you with the foundation to improve your processes and action tools to get results.

Measured systems have proven over time to outperform unmeasured systems by approximately 20%.

The key to success for the business owner is to determine what things that should be done and how to measure the actions to accelerate movement along the path. Without doing the work required to effectively develop and implement a business plan most businesses will underperform and in difficult economic periods they could unexpectedly be at significantly increased risk.