

HOW TO RUN A BUSINESS

The Truth Revealed about Business Risk

WITHOUT RISK

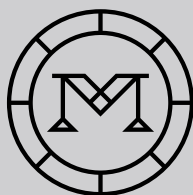
Vladimír John

TEN INTERVIEWS

WITH EXPERIENCED

ENTREPRENEURS

AND ADVISORS



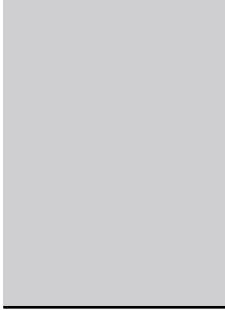
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It has been nearly thirty years since I decided to start my own business. When I look back, I recall that especially the beginning was a beautiful time. On the other hand, I can see many needless managerial and strategic mistakes. In fact, I made one blunder after another until I went bankrupt twenty years ago.

Nevertheless, by that time I had many successful projects behind me – companies that I set up and then sold. Today, when I drive through some areas, I see a bakery, building supplies store, delicatessen or restaurant that I started up, and they are still successful, even after several decades.

I started making use of my hard-earned experience by advising other businesspeople who had got into trouble. Now I can say that my advice and services have helped thousands of them in more than ten European countries. Alas, I have met businesspeople who were in such dire straits that there was no helping

PREFACE

them. In those cases, I attempted to at least be an emotional support. I tried to make them see that bankruptcy is nothing to be ashamed of, but rather an experience they could make good use of in the future, just like me. Next time they would be more careful and not take unnecessary risks.

Unfortunately, during my years in the business I have been in contact with two entrepreneurs who went bankrupt and committed suicide. They couldn't bear the burden of responsibility anymore and lost once and for all. It is really a shame, as their deaths were absolutely pointless. They may have solved their current burning situation, but they certainly did not help the people around them at all, quite the contrary.

The stories that I hear day in and day out from my clients have led me to give deep thought to the root causes of the business mistakes they make, the relevant risks and problems. I have realized that although my clients come from different parts of Europe, during our consultations they say very similar things, while I offer a limited number of possible solutions to their problems.

First, I analysed various business mistakes for myself and put them aside. Later on, I started holding seminars on those

issues. Through a friend of mine, I met a screenwriter who advised me as to what kind of educational programme would be simple, yet interesting, for both new and more experienced entrepreneurs. He recommended that I record professional interviews with expert advisors lasting between thirty and fifty minutes, so that we could tell listeners the essentials without boring them.

These interviews were intended to be for businesspeople who spend a lot of time in their cars: they would thus make efficient use of time while driving.

This resulted in a series of ten audio CDs and MP3 recordings under the name *The Truth Revealed about Business Risk*. These are now being sold in many countries around the world, in English, Russian and Czech. Recordings in other languages are coming soon.

Why did I decide to publish the interviews in this book? Well, not everyone likes listening to audio recordings nor has the time to do so. There are people who prefer reading while sitting in a comfortable armchair at home or relaxing on the beach under a parasol.

I believe that readers, just like listeners, will find my experience and advice useful for their businesses as it will make them aware of many risks, ideally warding them off.

The first interview is called *The Ten Commandments of a Good Entrepreneur*. It tries to emphasize everything you should be sure not to ignore, even before you start a business, and what measures you ought to take if you haven't already done so. This includes important steps that should certainly be taken to protect property belonging to you and your family. If you don't follow this advice, the consequences usually won't come straight away. Sometimes they may appear after a couple of decades, but with greater force. Mistakes in this area are often a cause of divorce and are the reason why some entrepreneurs lose all their property. Prevention is actually very simple. You can see for yourself when you read this first interview. Our interviewer (**I**) speaks with a project manager (**PM**) who is in charge of the consulting department for small and medium-sized companies at Meriglobe Advisory House, a multinational company.

THE TEN COMMANDMENTS OF A GOOD ENTREPRENEUR

I: First off, can you tell us what your company does?

PM: The scope of our solutions and services is very broad, ranging from establishing and managing domestic and foreign companies to solving critical business situations. Primarily, however, we focus on protecting entrepreneurs from business risk. Our clients are great and experienced entrepreneurs as well as those who are only thinking about getting into a business.

I: What led you to the idea of educating businesspeople on topics such as how to successfully tame company business risk?

PM: We often encounter entrepreneurs who have problems, some large, some small, but what amazes us is that we hear the same stories over and over, and they are very similar. We started thinking about why that is and came to the conclusion that entrepreneurial adrenaline somehow pushes away all considerations of business risk. Entrepreneurs who are just starting out are full of optimism, they're already counting their fat future profits and they don't take any signs of potential risk seriously.

I: Haven't they had the opportunity to educate themselves on business risk?

PM: When we delved deeply into the matter and studied numerous books on business risk management, we found they are written in a very complicated style. We looked at it from the perspective of a small or medium-sized business entrepreneur and came to the conclusion that there was actually no intelligible tool they could use to educate themselves in the field of business risk.

When it comes to cooking, there are countless books about it. Every day there is a renowned chef on TV showing us how to make a good potato purée or how to sear a juicy steak. True, we all eat every day, but how many of us do business every day and nobody tells us in plain language how to do it right.

I: I'm pretty curious to see what these business rules are.

PM: I have very important introductory advice for you: *don't risk everything for very little!*

Before you start a business, take a calculator and estimate your future profits. Whatever number appears on the display is nothing compared to losing all of your family assets, breaking up your family, or losing your freedom. You are the only one who decides whether your future business will succeed or fail, and *only you decide the level of the risk your business will take on.*

I: What do you mean we are the ones who determine how successful our business will be?

PM: You are the maker of your happiness and your success right from the start. If you fail, you can only blame yourself, as

you have not respected the basic rules of business. This might be due to your laziness or maybe ignorance. We believe the cause is rather a lack of information, which is why we focus on educating entrepreneurs.

I: Personally, I have always been a little afraid of doing business, but you might be able to help me alleviate my fears. So what is rule number one?

PM: *The kind of person you are is reflected in your business dealings!*

If you are a bohemian in your private life, you don't mind disorder or paying phone bills late, you're not hungry for new information and don't care about what is happening around you, you cannot become a successful entrepreneur. You must love healthy business risk, you must have the desire to change something and, above all, help people.

Any type of business is actually a form of helping others, your customers. And only when you really help them, will they reward you with their money, praise and loyalty. All you need to do is bake good bread or repair shoes well. You don't become an entrepreneur, you're born one! If you're not born an entrepreneur, you're better off not starting a business and remaining a satisfied employee.

I: These are quite strong words. Don't you think they may discourage many people from starting their own business?

PM: They are strong, but true. I'll be very happy if someone who is considering starting a business heeds them and then decides not to start a business. Paradoxically, for some people this will be the greatest help I can offer. I might save

them from future problems and enormous losses, maybe even from a ruined life.

I definitely don't intend to scare anyone away from business for no reason, but I think it is fair to say that business is only for those who are strong and prepared, and – most importantly – also have the necessary talent.

I: Do you think entrepreneurs often overestimate their strength, possibilities and capabilities?

PM: Yes, exactly. This also relates to the big and often fatal misconceptions of employees who decide to become freelancers for some reason and establish a new business.

They don't realize that in addition to being, say, excellent architects, they will also have to be good managers, organizers, visionaries, lawyers, accountants, tax advisors, psychologists, HR specialists, marketing experts, traders and economists.

The truth is you will have to master all those roles, at least on a basic level, if you want to become a successful entrepreneur. Overestimating one's capabilities is one of the reasons why so many companies close down so soon.

I: Let's say I have that thought about it thoroughly and come to the conclusion that I have the predisposition to become a successful entrepreneur. What's rule number two?

PM: *When drafting your business plan, take risk into account!*

Entrepreneurs bring us their business plans almost every day wanting to discuss them. Most of these plans have one thing in common: they lack information on business risk prevention and possible solutions. They are all full of optimistic information and numbers, but there is no mention of risk.

Some entrepreneurs even tell us that they are going to be sole traders and, therefore, that they don't need a business plan. However, this is a big mistake. If nothing else, not having a business plan means that you haven't sufficiently thought through your overall business strategy. This leads to a high number of totally needless mistakes and quite often also to the dismal end of the business.

Therefore, we recommend that entrepreneurs have their business plan on their computers or work desks, update it continually and think about their strategy and risks.

I: Does this hold true for every entrepreneur?

PM: Perhaps with the exception of a hairdresser who is an entrepreneur in her own house and doesn't employ anybody. She is alright if she writes up her business plan at the beginning without the need to update it later.

But those who want to keep evolving must elaborate their plans and think of their future strategy. They mustn't get immersed in just doing their business.

Success is even when you see on paper that your business plan is not perfect and you shelve it, abandoning, or at least postponing, its implementation.

I: Alright, so I'll start by writing a business plan. What is rule number three?

PM: *Choose a field of business where you'll have a competitive advantage!*

Entrepreneurs often don't actually know what a competitive advantage is, or they simply forget about it when they are about to start their business.

A competitive advantage is basically the most impor-

tant precondition for your business to succeed over the long term. There is nowhere you can buy a competitive advantage. You must work hard on the market to gain it.

Such an advantage may be having a monopoly on a product or service as do energy suppliers in some countries or having a unique, innovative and creative product as does Apple with its iPhone. Sometimes it is the low – or even high – price of a product or service.

If you had a legal problem, would you go to a cheap or an expensive lawyer?

I: I'd probably go to the expensive one, as I would expect he is going to be good.

PM: You see, precisely.

Other competitive advantages include brand names, such as Coca Cola; the location of the business, for instance a restaurant in a shopping mall; the quality of the product or service; the personal approach of the staff to customers; or a particular lifestyle, typical for Harley Davidson motorbikes and Porsche cars.

Porsche customers, for example, are used to high prices, luxury and quality. Today people actually prefer to pay a lot for the car, because then everybody thinks of them as being rich when they drive a Porsche; it is a question of prestige. With other brands, price is probably not the first thing that comes to your mind.

What competitive advantage does a baker you buy rolls from each morning have? His original recipe, of course. If the bakery combines quality with cleanliness and a friendly approach, you probably won't start going to a different bakery, even if there are two more close by.

Once you establish your competitive advantage, it's virtually impossible to lose it unless a revolutionary change takes place or you make a serious mistake.

It is important to do business in a field you really understand.

I: Alright. I will try to do some self-searching. And I am curious what rule number four will be.

PM: *Separate your personal and family assets from your business!*

Good entrepreneurs, whether beginners or more experienced, should divide their assets into three parts before starting up a new business. One third should be set aside as a reserve for the family; the second invested into family and investment assets; and the third can be invested in a business. Then if the business fails, the entrepreneurs will still have their personal property and a financial reserve.

You would be surprised how many people don't follow this rule. I can give you an example that is, in our experience, probably the most frequent one. A client started his business many years ago "out of a garage" with just a trade licence. At the beginning he fared very well, so he somehow didn't notice that the number of his employees rose to sixty and he had high operating loans. A bailiff came round and seized all his and his wife's assets. In fact, it had been a full fifteen years since he started his business; plenty of time to cope with business risk.

It is often enough to separate your personal assets from your business, carry on business through a limited liability company, and make sure that as an individual you don't take on any excessive liabilities as guarantor for

the company. Personal assets and financial reserves will thus remain untouchable.

I: That sounds really reasonable. I get the shivers when I imagine a bailiff seizing assets passed down from my grandmother. Let's move on to rule number five.

PM: *Choose the right type of business!*

To simplify things, let's mention only the basic types of business entities: sole trader, general partnership, limited liability company and joint-stock company.

Each type of business is suited to a different structure. A pedicurist who doesn't employ anybody and runs her business out of her home can afford to work through a trade licence. But an architect who doesn't employ anybody and works from home would be running too much risk. What if a building he has designed collapses and the insurance company refuses to cover a large part of the damage? He could easily end up repaying the debt for the rest of his life and lose everything.

I: Those who run larger businesses, whether alone or with others, then automatically switch to a limited liability company or joint-stock company, don't they?

PM: Usually yes, because they have the money for quality consultants. But even here we can come across exceptions.

I have met some really great entrepreneurs running very large businesses under their trade licences, even after twenty years. If I were in their shoes, I wouldn't be able to sleep at night. There is so much risk that it all comes down to "Hey, I have survived today, let's see about tomorrow."

Each entrepreneur should select a business structure

that corresponds to the expected extent of his or her business, accounting preferences, business strategy and, in particular, that protects his or her assets against risk.

I: What is rule number six?

PM: *Do business by yourself, in the case of a partnership make the right provisions!*

I will begin with a story. Two childhood friends established a company with a fifty-fifty share, and everything ran like clockwork. Over twenty years they built up a colossal office furniture company and exported goods to many countries around the world.

But only until one of them got divorced and started dating a young and very attractive woman. The other partner liked her too and, since she was kind of a bitch, it wasn't long before she was having an affair with both of them.

The end result was not only a personal disaster, but also the demise of a well-established company. The competition soon rolled right over them, and they eventually lost everything.

But this is definitely not an isolated case.

I: How can such unfortunate situations be prevented?

PM: When establishing a company with a partner, pay due attention to the certificate of incorporation!

If you do have to have a partner, take care when planning for important matters. Your joint business might be jeopardized by the mere fact that you may not be able to take the right decision (and quickly) in a crucial situation. You invest a considerable amount of time into building your

company. You certainly don't want to see this effort go to waste after many years because of a triviality.

I: But won't my partner see that as a signal that I'm not sincere about our joint partnership? That I want to have the upper hand?

PM: If you have the right partner, he or she will understand. Even they will welcome having everything clear right from the start. If your partner insists on having an equal share in the company and in *the decision making rights*, simply pull back. It is absolutely natural that you don't go fifty-fifty.

If you have to or want to do business with a partner, you must have good reasons for it. A partner must somehow be beneficial to you, so you should name and define your roles in the company as well as the relevant decision making rights and shares at the very beginning.

If you find this far too complicated, you can use a good consultant or lawyer and draw up a balanced and mutually beneficial certificate of incorporation or a partner/shareholders' agreement. It is a good solution if you want or need a partner or associate.

But if there is any way to do business on your own and have full control over your own company, that is the ideal.

I: But then how could I collaborate with such a partner?

PM: It is quite simple. Conclude a collaboration or mediation agreement or contract for work and agree on profit participation.

Agree to collaborate for as long as it suits both parties. If or when you realize it no longer suits you, you will simply withdraw from such an agreement, without affecting your

share in the company. You will keep 100 per cent of the decision-making authority.

It is an important issue. We quite often meet clients whose partner withdrew all their money from their bank accounts and stopped communicating. They want to dissolve the company but, because they only have a 50 per cent share, the general meeting cannot pass any resolutions. Finding a solution is not easy in such situations, because you actually need to come to an agreement with the partner.

We often act as mediators for such agreements and liquidations, but not always successfully.

I: You have completely convinced me that it's better to have a firm hand on the tiller. What is rule number seven?

PM: *Establish the right price for starting your business!*

Imagine you have decided to run a restaurant and you are buying an already existing one. Such a restaurant has a fixed location, kitchen and seating capacity and number of places at the bar.

Your money can cover 30 per cent of the purchase price, and you need to borrow the rest from the bank. You will secure the loan with the restaurant, your family house and a mountain cottage. The bank will lend you money amounting to 70 per cent of the value of your collateral.

The past economic results of the restaurant are not very favourable, but you like the architectural design, so you agree on a price that does not correspond with its business results. You simply overpay, believing you will make it if you increase the number of guests by 50 per cent, improve the cuisine and raise prices.