

Making The Right Money



5 Primary Factors That Hinder A Proper Financial Return

by

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While having lunch with a client, he asked me a question “Why don’t most small business owners make the right money?” Having owned a few small businesses myself, and while consulting to owners and organizations in over 20 different industries, I believe I could and did answer his question. And, I would now like to share my answer with you.

Although there can be a plethora of reasons for a weak return, I have narrowed this rationale to 5 decisive factors that I have personally witnessed, that hinder the attainment of significant financial return. I would also suggest that even the client organizations that have, in the owners view, provided substantial return; I have discovered as much as 4 points being left on the table.

But, before I reveal those 5 primary factors, let’s describe what real financial return means. Real financial return is when ownership has W-2 compensation that is above the market for comparable employment **plus** an above market return on any investment in the business. This is computed over no less than 3 fiscal years and no more that 5 fiscal years, ongoing. A great methodology for this measurement is the MAT (Moving Annual Total) calculation. With an established variable base line, you will always know when you have fallen below market or are reaping above market returns.

Why above market? Well, if your wages are at or lower than analogous employment **and** your investment would throw off an equivalent market return, why own the business, given the considerable risk, headaches and legal exposure?

Only the W-2 compensation depends on the company size, industry, etc. A profit distribution or stock dividend, which is also expected, is not (by percentage) dependent upon the company size, industry, etc. If it were, there could always be some justification for an inadequate return.

Having defined the right return, let’s reveal those 5 primary factors that hinder a proper financial return.

1. Un-Balanced Portfolio: In any investment we make, i.e. IRA, stocks, bonds, money markets, etc. we expect a positive return over time. We, who own a business or career for that matter, should also expect a return and / or growth beyond W-2 income. If the return is deficient, as defined above, the organization may not be structured (balanced portfolio) in a way that would allow for a proper return, and an

analysis [[click here for more information on Business Analysis](#)] will reveal the imbalance(s) so that a restructuring can be executed.

2. **10, 9, 8, 7...Talent:** If you have been following me at all, you know that I believe this is the most vital component to a profitable business [[click here to read my article Hire Too Fast, Fire Too Slow](#)]. More than ever, character, natural enthusiasm and belief systems are the foundation of an achieving team.
3. **Strategy Non-defined:** Strategic Planning is an oxymoron. The development of 'strategy' is future and once developed requires management commitment to every decision and tactical action carried out by the organization. Tactical planning and its driving force are derived from an established strategy.
4. **No Plan, Only a Wish:** Annual Business 'Profit' Planning is a binder of documents that clearly define the financial parameters, contribution margin objectives, marketing plans, business development tactics and related operational planning. Without a documented plan and real time Deviation Analysis, leadership and their followers are left to their own agenda and whatever results may come about, positive or negative.
5. **No Reinvested Profits:** Organizations must continually reinvest in analysis, planning, talent and technology to establish and gain market share. Like profit from selling a stock, it is reinvested rather than sitting idle and not supporting growth opportunities.

There is no denying that for some, just the mere fact of owning a business has its own rewards in self-worth and other gratification beyond making the right money. And I believe the following quote to be true – **"If your only goal is to become rich, you will never achieve it."** -- **John D. Rockefeller**

However, having said that, Rockefeller accomplished and contributed much, while always having an above market return for any business he owned, making the right money...and you should too.