January/February 2010 Volume 34, No. 1

the businessowner

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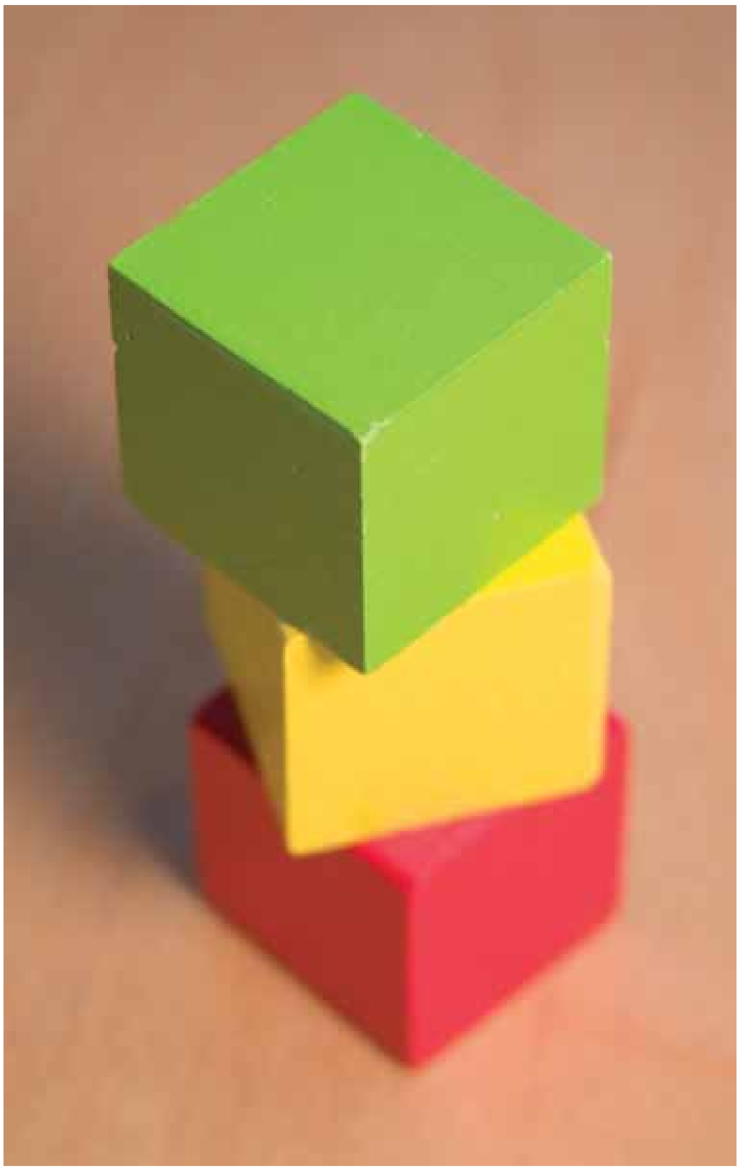

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From the Editor

Dear Business Owner,

Happy New Year.

Have you ever been more excited to get a year behind you? For most business owners it was a tough one. The economy was terrible. But the signs now point to better times in 2010. Hallelujah!

I truly believe that 2010 will be a much better year for your business. The economy will continue to recover and purchasing will get back to normal. The stock market may not continue to rise, and in fact I predict a decline, but more important to your business and mine is the overall economy. It is improving and will continue to improve throughout 2010.

This issue of *The Business Owner* is packed with the information you need to make better decisions. Consider your website. Read the cover article of this issue and begin making real strides with your website and Web strategy. Winning the Web game relative to your competitors could be the most significant strategic move you make.

Make no mistake. You can make 2010 a breakthrough year for your business. We can help.

Sincerely,

David L. Perkins, Jr.
Managing Editor
The Business Owner Journal

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ISSN. NO. 0190-4914. VOL. 34, NO. 1. PRICE $299.50 PER YEAR.

the business owner

This publication is owned and published by DL Perkins, LLC, 5727 South Lewis Avenue, Suite 400, Tulsa, Oklahoma 74105; 918.493.4900; Fax 918.493.4924. Info@TheBusinessOwner.com.

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MARKETING

The Fundamentals of Website Marketing

The fundamentals of football are blocking and tackling. It's silly for a team to work on other things before it has the blocking and tackling down cold.

The fundamentals of website marketing are architecture, content and incoming links. Spending time or money on anything else is a waste unless and until you:

a. know all you need to know about how to optimally design a website for maximum search engine optimization (SEO), and

b. have designed your site — and are continually updating and maintaining your site — in adherence to SEO "best practices" for architecture, content and incoming links

For most business owners today, this is not just about your website. It's about the ongoing success of your business. The very survival of your business.

The playbook for the game of business has changed. In the age of the Internet, teams win and lose based on, in whole or in part, their ability to execute on the Web.

The first and foremost essential of Web execution is getting ranked highly for relevant keywords by the main search engines (Google, Yahoo, Bing). Search engine rankings are driven by three things: architecture, content and incoming links. So build your winning Web strategy on a solid foundation. The only foundation that makes any strategic sense.

Architecture

This is about how the site is programmed and built. For example, each page of the website should have a keyword-focused summary about the page in the page title and meta description. Also, the URL for each page should be short and made up of real words that explain what is on the page. We're talking plain English. Avoid formulas and cryptic symbols.

Search engines rank pages based on their relevance for certain keywords. Page titles, meta descriptions and URLs are given higher levels of importance than the words in page text.

Content

Does your site offer any information or tools that are unique? Helpful? Insightful? Interesting? This is referred to as content. The *Wall Street Journal* offers proprietary content on the publicly traded securities, financial markets and investing. People interested in these topics subscribe and, judging by the circulation, find value. *Aspen Sojourner* contains information about the people and happenings of Aspen, Colorado. People interested in these matters subscribe. *Noria* provides information about machinery lubrication and plant maintenance. *Acquisition Advisors* provides information about how to best go about quietly and professionally buying or selling a private company.

Search engines provide people with the information ("content") they want to find. To begin winning the search engine game, you need to develop unique, relevant and authoritative content in the area of your focus.

Incoming Links

Search engines give higher rankings to websites and/or Web pages that are popular. Popularity is gauged, in no small part, by how many other relevant websites contain links back to it. We include the term "relevant" because the search engines have gotten smarter. It's no longer a "more is better" game but one of quality of links. For example, if you're an industrial manufacturing consultant and trusted experts (i.e., their blogs, articles and websites) in your industry link to your website or pages of your site, the search engines will give you a higher ranking than if you had links from random websites such as those of all your non-industry friends.

> In the age of the Internet, teams win and lose based on, in whole or in part, their ability to execute on the Web.

Of lesser quality but still well worth your time are links from business associates, business associations, directories and other membership organizations.

Do your plans for success include beating your competitors on the Web?

They should. The Web offers an amazing opportunity to expose more people to your company, strengthen your brand and add profitable revenue. But make the most of your time and energy, and do as Stephen Covey suggests: First Things First. In the game of website marketing that's Architecture, Content and Incoming Links.

Matt Bailey of SiteLogic provided his expertise for this article. tbo

ABC Inventory Control to Boost Profit and Carve Out Tax-Free Cash

The skill of a company in procuring (i.e., purchasing) parts, product and managing inventory can be the difference between success and failure. This is because:

1. The profitability of a business — or lack thereof — is established by the gross profit margin. That is, the profit left over from each sale after the direct expenses are deducted. For many businesses, the primary direct expense is procured product.
2. Inventory ties up a significant amount of cash in many businesses. Poor inventory management can drain a company's cash, raise financial risk by requiring higher levels of borrowing, and erode profits due to outsized inventory spoilage, obsolescence or theft.

ABC inventory control is a relatively simple, widely used way to wring out cost, improve gross margins and increase inventory turns. Increased "turns," of course, lower the amount of inventory-on-hand. If inventory-on-hand can be lowered from $500,000 to $300,000, the result is $200,000 in positive cash flow. If the business uses the accrual system of accounting for tax purposes, the windfall doesn't trigger tax.

80-20 Rule: Focus Where You Can Have the Most Impact

The ABC inventory control method derives both its simplicity and effectiveness from the 80-20 rule. So, to begin to understand and apply ABC inventory control, the business owner should begin here: 80% of a company's revenue is derived from 20% of its offerings. Every business owner should know which of his/her products or services produce the lion's share of the revenue and profit. Additionally, within this 20% you should learn what components make up 80% of the cost of these products. As Harry Figgie says in his *The Cost and Profit Improvement Handbook*, "These are the parts that make up the largest share of the company's material costs."

Armed with this basic information, the business owner can sit down his/her purchasing manager and begin looking for ways to lower cost and reduce the amounts kept on hand.

Divide and Concur

Building on the simple 80-20 rule, ABC inventory control methodology calls for each purchased item to be separated into one of three groups: A, B and C. "A" items are those relatively few that represent the highest cost and generally the greatest investment. As such, these items should be given considerable attention so:

- stock levels of these expensive items are minimized so the cash tied up in inventory is kept as low as possible, and
- stockouts of these items are rare despite the low levels maintained on hand

Conversely, items that cost the least are categorized as "C" items and can be purchased much less frequently, such as once per year. Doing so will reduce the time required to deal with ordering (and thus free up time to focus on A items) and render little financial consequence because the total dollar amount is insignificant. Of course, all other parts are labeled "B" items. These items can be ordered in smaller quantities than C parts, maybe monthly or quarterly, but much less frequently than "A" parts.

> ABC inventory control is a relatively simple, widely used way to wring out cost, improve gross margins and increase inventory turns.

The accompanying table shows a sample breakdown of purchased items divided into categories A, B and C. The table also contains the basic data used to sort them. As you can see, four of the 30 inventory items (13%) have been designated "A" parts and account for 88.7% of total annual purchases (in dollars). Eighteen of the 30 (60%) have been designated "C" parts and account for just 1.8% of total annual purchases. The balance (8 of the 30 or 10%) are "B" parts.

Laid out this way, it is easy to see the simple logic: 89% of this sample business' costs come from just 13% of its purchased items. Focusing on this subset will greatly simplify the purchasing and inventory management tasks. And, by focusing on the few that will yield the greatest results, the results can be significant. It entails minimizing the on-hand count of these items, frequent monitoring of stock levels for each, and frequent reordering. The high cost of these items provides the return on the extra time spent.

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Sample Breakdown of Purchased Items into A, B and C Groups

Part #	Per Unit Cost	# Purchased Per Year	Total Purchases Per Year in Dollars	ABC Group
26	$600.00	90	$54,000	A
29	$3.00	24,000	$72,000	A
1	$6,000.00	36	$216,000	A
16	$2,697.00	300	$809,100	A
Total Purchases Per Year (A Items):			$1,151,100	
A items Purchases as % of Total Purchases:			88.7%	
21	$12.00	600	$7,200	B
30	$2.37	4,500	$10,665	B
27	$6.00	2,220	$13,320	B
3	$894.00	15	$13,410	B
22	$89.85	150	$13,478	B
15	$150.00	105	$15,750	B
19	$0.75	27,000	$20,250	B
10	$48.00	600	$28,800	B
Total Purchases Per Year (B Items):			$122,873	
B items Purchases as % of Total Purchases:			9.5%	
14	$0.27	30	$8	C
28	$0.29	600	$171	C
2	$0.06	3,000	$180	C
18	$1.20	150	$180	C
5	$2.10	210	$441	C
7	$12.00	48	$576	C
13	$0.87	750	$653	C
20	$2.40	300	$720	C
6	$30.00	33	$990	C
17	$33.00	30	$990	C
25	$120.00	9	$1,080	C
23	$30.00	48	$1,440	C
11	$0.12	15,000	$1,800	C
8	$3.00	600	$1,800	C
24	$18.00	105	$1,890	C
9	$89.85	27	$2,426	C
30	$24.00	150	$3,600	C
4	$9.00	498	$4,482	C
Total Purchases Per Year (C Items):			$23,427	
C items Purchases as % of Total Purchases:			1.8%	
Total Purchases Per Year (All Items):			$1,297,399	

Inventory Reduction Example

	Monthly Average Requirement	Average Inventory (months)	Investment	Purchased Annually
Before ABC				
	$108,117	2.5	$270,291	$1,297,399
With ABC				
A Parts	$95,925	0.5	$47,963	$1,151,100
B Parts	$10,239	3	$30,718	$122,873
C Parts	$1,952	12	$23,427	$23,427
		Total:	$102,107	$1,297,399
		Savings:	$168,184 (a 62% reduction)	
		Annual Inventory Turns:	Improved from 4.8 to 12.7	

The C items account for a full 60% of the purchased items but consume less than 2% of the costs. It makes no sense spending much time on these items, so they should be set up to require minimal effort. Typically this means buying just once or twice a year.

The accompanying table labeled "Inventory Reduction Examples" shows how the ABC method can drastically reduce the amount of cash tied up in inventory. Here, a 62% reduction of the cash tied up in inventory.

Margin Improvement

In addition to inventory reduction and the important positive cash flow impact that a reduction can provide, ABC is a powerful tool for helping the business owner determine where to focus his/her energies to successfully wring out cost and improve gross profit margins. With the simple analysis provided, the number of inventory items that require cost reduction focus is cut by 80% or 90%.

Time, of course, is scarce for all of us. Scarce for our employees as well. This is the power of ABC inventory control methodology. By knowing where to focus, one can gain a maximum return on one's investment of time and energy. The result can be the very survival of one's business, or the difference between just getting by and making some real money. After all, 20% of the businesses make 80% of the profits. Apply ABC inventory control to your business and you'll be well on your way to the top 20%.

Note: This article was adapted by David L. Perkins, Jr. using, in part, information contained in "The Cost Reduction and Profit Improvement Handbook" *by Harry E. Figgie, Jr.* tbo

Article Series on Cost Reduction and Profit Enhancement Strategies

January-February 2009

First Step Toward Profit Enhancement? Break Down Employee Resistance

Cost Drivers and Where to Look to Lower Cost

Want to Improve Profit? Everything's Negotiable

March-April 2009

Optimize Your Organizational Structure

Cost Reduction: Setting Priorities and Where to Look First

May-June 2009

Peer Benchmarking: Compare Your Company to Others, Find Out What's Possible

July-August 2009

Internal Benchmarking: Use Historical Performance Data to Enhance Profit

September-October 2009

Assess Organization-Wide Productivity to Maximize Profit

November-December 2009

Work Sampling: A Method for Assessing and Monitoring Productivity

This issue!!

January-February 2010

Using ABC Inventory Control to Carve Tax-Free Cash out of Inventory

March-April 2010

How to Improve Your Sales Forecasting

May-June 2010

Product and Service Pricing: Get It Right to Maximize Profit

"I have a big interview tomorrow. Where do you see me in five years?

PROFESSIONAL DEVELOPMENT

How to Make 2010 Your Best Ever

Is your world on such a desirable trajectory you can just keep doing what you are doing and get the results you want? If so, read no further. If, on the other hand, you want to accelerate your progress, change your course or hit some definitive accomplishments, now's the time to set your goal and develop plans for achieving it. It really is this simple.

Less Is More

Change is not easy. To succeed at change you need focus. So when you set goals, set just one big one. There will be plenty of action steps required to accomplish the goal. Just be sure your goal is a worthy one.

Now's the time to set your goal for 2010. What will it be? What is the one thing you really want to accomplish?

Words from an Accomplished Man

Lou Holtz is known for keeping it simple. He's also known for setting big goals and achieving them. For being born with little and accomplishing a lot. He says that to be a winner takes just three things:

Do right.

Do your best.

Treat others as you want to be treated.

He also says that if you want to be successful, all you have to do is:

Define exactly what success is for you.

Be persistent.

To be sure, 2010 is going to come and go. There will be 365 sunrises and sunsets. 252 official workdays. So what do you say we try to make the most of them? Make 2010 a year of real progress? Make sure that one year from now you've accomplished something exciting? Rewarding? Worthwhile? Breakthrough?

It's up to you. It's also in your hands. Either you dictate what 2010 will be or let it give you whatever it wishes. Either way, 12-31-2010 will be here before you know it. tbo

"You don't have to save the world. You just have to help it along the way."

Francis Rooney

PROFESSIONAL DEVELOPMENT

Tips for Making a Great Impression

Warm, healthy smile. There may be nothing more important than a warm, healthy and relaxed smile. You'll feel happy, more comfortable and be well on your way to making a good first impression.

Eye contact. Just as important as a warm smile is eye contact. Engage people by looking into their eyes as you meet them, listen and converse. Of course, it's open eyes with a smile and a nod (as opposed to a cold stare)!

Ask open-ended questions. When it comes to making good impressions, it's not about you. Show genuine interest. Ask open-ended questions that begin with who, what, where, when and why. Avoid closed-ended questions that can be answered with a yes or no (i.e., questions that begin with "Are you …" and "Have you …").

Stand tall with your hands to your sides. Healthy, confident and relaxed people tend to stand tall and display good posture. Avoid crossing your arms or holding your hands. Instead, let your arms and hands rest naturally at your sides. You'll come across more friendly and relaxed.

Lower volume is better. A lower tone of voice tends to be received as warmer and friendlier. Loudness can cause discomfort and/or distrust.

Slow the pace; eliminate filler words. Filler words are words such as um, ah, well, you know and I don't know. Although they are extremely common, they communicate uncertainty, nervousness and even lack of intellect. Slow down your rate of speech, take your time and cut out the filler words.

Make short statements, then wait for a response. We're all turned off by run-on talkers. Don't do it yourself. Make short, clear statements, or ask brief questions, and wait for the response with interest.

Say hello and extend your handshake. Why do politicians smile, say hello and shake a lot of hands? Because it makes a good impression and builds relationships. You should do it, too.

Be well-dressed and well-groomed. OK, this may sound like Wally Cleaver from *Leave It to Beaver*, but people judge books by their covers. Dress and groom as nicely as you can. The result, combined with the other tips herein, will ensure that your presence counts when you walk into a room.

Jana Christian provided her expertise for this article. You can reach her at miss_manners@sbcglobal.net. tbo

REAL ESTATE

Now's the Time to Become Your Own Landlord

You bear great risk. Your wealth is concentrated in a single investment — your business. Your personal investment portfolio lacks diversification.

Are you listening? Do NOT rest your entire financial future on a single investment. At the very least, fund retirement accounts to their maximum. Investing in real estate should also be an absolute priority, and the best opportunity is the facility your business occupies.

If you don't own the land and building your business now occupies, now's a great time to make it happen. Real estate values are down. Way down. Ditto for interest rates. They're not going to stay down forever. Far from it. The time to act is now.

With the rent you now pay you should be able to pay the interest, principal, taxes, maintenance and upkeep on a facility you purchase and with every payment you build equity and grow your personal net worth.

Scary? Of course. Charge forward with courage. The move makes so much sense. It's not like you're buying a second home. It's less risky than that and the odds are — if you can be sure to not overpay — it'll pay off handsomely.

Remember, though, it will take many years to pay down the principal portion of the debt you borrow to make the purchase, so buy as early as possible. Let time work its magic.

Note: For more on this topic, sign up for the free webinar for subscribers to be held on March 10, 2010. tbo

Know and Avoid Common Decision-Making Mistakes

To err is human, but don't give up! You can learn to make better decisions. You have the intellect necessary to gather and objectively assess the relevant facts. Just slow down, conduct a level-headed analysis and get familiar with psychological biases that tend to derail sound decision-making for humans (so you can avoid them). Here are the common ones:

Recency Bias: tendency to be overly influenced by recent events. Our memory of recent events is more salient than those of more distant experiences. This seemingly innocuous memory trait can seriously warp our ability to see the world objectively. And because our actions are influenced by our experiences and beliefs, overemphasis on recent events leads to skewed beliefs and inappropriate assessments.

During the bull market of 2003-2008, many investors lost sight of the long-term history of the stock market. They invested as if the future would mirror the more recent past (i.e., steady gains). This occurred in the real estate market, too. But an objective review of the facts would have led one to conclude that the stock market goes up AND down, sometimes way down, and the real estate industry has long been marked by boom-and-bust cycles.

Loss Aversion Bias: tendency to place a higher value on risk avoidance than gain. Investment involves risk, so persons with a high degree of risk aversion tend to make poorer investment decisions. For example, an overwhelming amount of data supports that the stock market is the best option for at least a portion of one's long-term investment dollars, but many avoid the market for fear of loss. They choose to invest in more "safe" investments, such as U.S. government bonds, though statistics show that the choice is almost guaranteed to result in substantially lower long-term returns.

Loss aversion plays out with investors in another interesting way — unwillingness to accept loss. So investors deal with a losing investment by rationalizing that it's not a loss unless and until it is realized, meaning that until they sell out of the position at a loss, they hold onto it. They watch it go all the way to zero instead of doing the rational thing — cutting their losses early and getting their money redeployed into more promising and higher-yielding investments.

Finally, car rental companies prey on this by getting us to buy additional "damage waiver" insurance, and phone companies try to get us to accept flat-fee service to avoid the risk of getting a surprise bill.

Overconfidence Bias: tendency to overestimate one's own abilities. Studies show that people tend to overestimate their intellect and abilities. For example, in a spelling task, students scored an 80% on average when they were "100% certain" that they scored 100%.[1] Similar to this is optimism bias — the tendency for people to be overoptimistic about the outcome of current efforts or planned actions. This includes overestimating the likelihood of positive outcomes and underestimating the likelihood of negative outcomes, such as graduate school students overestimating the number of job offers they'll get and starting salary.

It seems that we develop beliefs and then look for supporting evidence. So experts suggest we try looking for evidence that **refutes** a conclusion or theory that we've concocted. Ask others to "poke holes " or provide refuting information.

Commitment Bias: tendency to support or justify a past decision in the face of contrary evidence. Irrational loyalty to an old strategy that was previously successful (staying the course) is not in our best interest. Some catastrophic airplane crashes have been the result of commitment bias. Pilots develop a myopic focus on their commitment to on-time arrivals and departures, and ignore clear and obvious danger signs.

Businesses fall prey to commitment bias, too. Experts suggest we step back from the project or task at hand and ask, "If I were just arriving on the scene and reviewed the facts, is this solution the rational one?"

Anchoring Bias: tendency to rely too heavily on one trait or piece of information when making decisions. When I was a senior in high school, the college I was slated to attend had a very active fraternity/sorority system. I didn't know which would be best for me, but then I overheard a beautiful older woman say, "Sigma Alpha Epsilon is the best." That's all that mattered to me. I ignored every other piece of information and signed SAE. Clearly, my decision was irrationally anchored to a very small piece of information.

Another example is overreliance on the beginning price (i.e., asking price) in negotiating purchase of goods or ser-

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vices. "Hey, this MUST be a good deal, it's 30% off the asking price." The subject buyer has anchored his/her assessment of "fair price" or "value" on a single piece of largely irrelevant information — the asking price.

Finally, anchoring bias plays out in everyday life in the tendency of some people to let a single, terrible event dominate their psyche and decision making, such as when an individual avoids investing in the stock market because of a bad prior investment.

Value Attribution: tendency to place value on a person or thing based on a very limited piece of data. First impressions work this way. When we know very little about a person or thing, we — consciously or subconsciously — imbue him, her or it with the qualities we perceive in the things in close proximity, such as the clothes or surroundings. This is why consumer product manufacturers try so hard to get their products seen with famous people. It's why packaging matters and Mercedes dealerships are spotless and marble-clad.

But if we want to make better decisions, we must keep in mind that context clouds our ability to see real attributes. We may turn down a pitch or idea presented by the "wrong" person, or blindly follow the advice of someone we highly regard. Similarly, our expectations of "context" influence our assessments. Value attribution bias hinders our ability to objectively assess value. Studies show that the price we pay for a ticket affects our enjoyment of the performance. So make a conscious effort to see things for what they really are and not just how they appear to be. Differentiate between "packaging" and real attributes. Initial impressions can be wrong, of course.

No cure-alls protect you from these biases, but here are some suggestions. First, when you face a financial or business decision and the stress level is high, step back. Take a break, remove yourself from the stress and revisit the decision after you cool down.

Second, if it's a transaction or business deal you're already in, ask yourself, "If I were just appearing on the scene, would I get in today at the current terms or would I decline?"

Third, run the facts by a person you trust. Don't argue with his or her answers, just give him/her the facts as best you can, and gain his/her thoughts and perspectives.

Fourth, once you have developed your interpretation or viewpoint, test it. Look for refuting evidence.

Fifth, remember Warren Buffett's #1 Rule of Investing — Margin of Error. Our ability to assess and predict is imperfect, so leave a lot of room for error.

Finally, be willing to cut your losses. Get out with what you can and move on to more promising endeavors. tbo

[1] Adams, P. A. & Adams, J. K . (1960). Confidence in the recognition and reproduction of words difficult to spell. *American Journal of Psychology*, 73 pp. 544-552.

"Look for three qualities in a manager: integrity, intelligence and energy. And if they don't have the first, the other two will kill you."

Warren Buffett

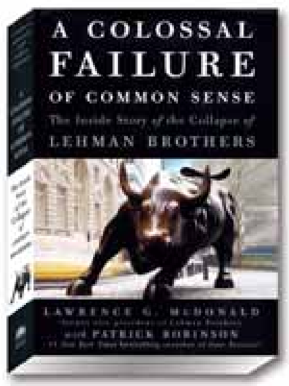
BOOK REVIEW

A Colossal Failure of Common Sense

By Lawrence G. McDonald

Reviewed by David L. Perkins, Jr.

More than an insider's account of events that led to the collapse of Lehman Brothers, it's also a truly amazing story of a young man's "by hook or by crook" determination to break into the ultra-exclusive club that is Wall Street. Although the story could have been told in fewer pages, it's chock-full of tales of hustle, determination, greed, ego, intelligence, big bets and the chase for big bonuses. It also reveals the complexity of the world's economic system and financial markets; how relationships and power struggles at this level can swing billions, if not trillions; and how even the smartest people can, and often do, get it wrong.



Lawrence McDonald, a confused kid from a broken home, steadied his ship and set a goal to work on Wall Street after graduating from college in 1989 in the middle of the pack at a middling university. Despite exerting an almost impossible-to-believe effort to secure any job at all on or near "The Street," he failed. Plan B was to follow the advice of the only investment banker willing to talk to him: Take any sales job you can find and demonstrate an ability to sell. So he took a job selling pork chops door to door. Yes, pork chops. As in *the other white meat*.

So he took a job selling pork chops door to door. Yes, pork chops. As in *the other white meat*.

He went at it as if his very life depended on it and soon became the #1 pork chop salesman on the East Coast. Then with this one bullet point of experience on his resume — one that showed an ability to sell — he again knocked on the doors of investment banks. This time, he landed a commission-only securities sales job for a god-awful, hard-selling, cold-call-out-of-the-phone-book "boiler room" operating hundreds of miles from Manhattan. He again worked day and night with near-maniacal determination, built a little book and earned some money. He obtained his securities license and developed a love and passion for convertible bonds ("converts"). It was 1997 and no online services offered information on convertible bond issues, so he quit his job and started www.convertbond.com with a friend.

Once again, working day and night and using creativity, ingenuity and a willingness to break through any and every barrier, rule and unwritten law that was in his way, he and his buddy built and then sold www.convertbond.com for a tidy profit.

With his new bit of street credit, documented sales ability and Series 7 certification, he cashed in on a boyhood relationship he'd worked hard to maintain and nurture. The result was a low-level job on the bond trading desk with one of the top investment banks on The Street — Lehman Brothers. Little did he know that the seeds of the firm's demise were already planted.

McDonald spent four years at Lehman Brothers, 2004 through 2008, rising to become a successful and respected bond trader. He became familiar with the inner workings of the firm and as he studied the financial markets — particularly the bond market — he saw reasons for concern. He listened to concerns expressed by others he respected in the firm, and even did some gumshoeing, making a firsthand assessment of the residential mortgage origination process and of the true credit quality of residential mortgage-backed securities. Lehman had hundreds of billions of dollars of exposure to them, and the top brass was operating under the assumption that their quality was good as gold. But McDonald and others had reason to believe otherwise and, if they were right, the firm's very existence was in jeopardy.

Lehman was operating with incredible amounts of leverage — 40+ times debt-to-equity — and with a concentration of assets in commercial real estate and residential and commercial mortgage debt to boot. But despite repeated and multi-point warnings, Lehman Chairman and Chief Executive Officer Richard S. Fuld, Jr. and President and Chief Operating Officer Joseph Gregory spent most of their time secluded in their penthouse offices, unwilling or unable to converse with the troops or give any credence to repeated pleas for a course change. Fuld and Gregory were instead focused on becoming the largest investment bank in the world,

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> "Those that spend too much will eventually be owned by the thrifty."
>
> *Sir John Templeton*

continued from previous page

on competing with the likes of Goldman Sachs and Blackstone Group, gaining title to the world's most prestigious real estate assets, founding and investing in hedge funds, being the leader in mortgage securitizations, and manufacturing continuous revenue and profit increases.

There are many themes and lessons in *A Colossal Failure*. Not surprisingly, greed, selfishness, ego, excess and foolishness. Also covered are the complexity of the financial markets and the dilemma of what to do when a firm becomes too big to fail but also too large to bail out. And then there is what to do about the fact that large, public companies such as Lehman are run by boards of directors who are simply members of a mutual admiration and support society with the CEO and president.

When a bank becomes impossibly large and complex and sparingly regulated, tremendous power is concentrated in the hands of a few. Bad things can and do happen. Lehman Brothers — one of the largest investment banks in the world — more than 100 years old and with nearly a trillion dollars of equity — evaporated — added fuel to the fire already burning in worldwide financial markets, resulting in an inferno that nearly enveloped the entire modern financial system.

The first step in preventing it from happening again is, of course, understanding what happened. tbo

PROFIT ENHANCEMENT

Tips for Wringing Out Cost and Improving Gross Margins

1. Purchase, Don't Expedite. Time is money. Given a little time, a purchasing manager worth his/her salt should be able to wring a significant amount of cost out of any purchase. So give him/her incentive and time. Expedited orders add substantially to freight cost, and when you need it quick, your bargaining power is weak.

2. Use ABC Stratification. The ABC inventory control method derives both its simplicity and effectiveness from the 80-20 rule: 80% of a company's revenue is derived from 20% of its offerings. Additionally, within this 20%, you should learn what components make up 80% of the cost of these products, and then work to continually reduce the cost.

3. Competition Is Key. As cost control legend Henry Figgie, Jr. says, "Competition is the key to any free market system." It's also the key to cost control in your business. Always get bids from multiple vendors. Always let each vendor know you're getting bids from others and that price matters. Always open your door to new vendors and new quotes. Never single-source.

4. Standardization of Materials. Avoid use of special, unique, rare or exotic materials. Move to items, parts or materials that are common and available for low prices from a variety of sources. Identify the expensive parts you purchase. Find substitute parts that could be used instead. If necessary, re-engineer the product or part so cheaper generic parts can be used.

5. Reduce Shipping Cost. It's not just about the cost of the purchased items, but rather total delivered cost. Shipping (freight, delivery) costs must be minimized, too. Watch them. Track them. Always specify the lowest cost. Talk to your vendors about how you can lower shipping cost. After all, what you want is the lowest delivered cost.

6. Eliminate Graft, Conflict of Interest. The person who handles your purchasing spends significant dollars. You definitely don't want this person to have any reservations about screwing down costs at every opportunity. Do not hesitate to switch vendors. Do not allow this person to accept, nor any vendor to provide, gifts or perquisites of any kind to your purchasing manager. Annually send a letter to each vendor that communicates this policy. tbo

RECENT BLOG POSTS

WWW.THE BUSINESS OWNER.COM/BLOG

Let Them Be Distracted

December 20, 2009

The great news for you is, odds are, your competitors are not hitting on all cylinders. It's just not the real world. The really well-functioning teams are the extreme exception, not the norm.

You remember. You worked for a variety of companies before you became owner. Were they well functioning or did they survive, somehow, despite themselves?

My point to you is: See and seize the opportunity. You can gain ground — considerable ground — if you can stay focused, motivated, and lay down long periods of high productivity.

Develop new products and services while your competitors are content selling the same old. Launch a PR campaign while your competitors are taking some time off. Find cheaper sources and methods while your competitors continue to accept unattractive profit margins. Improve your location or spruce up your facility while your competitors are navel gazing. Have some fun with your employees and build a more cohesive team while your competitors do nothing to stem employee boredom and lack of unity.

The ways to get better, stronger, faster are myriad. Just be sure you're focused. Be sure you're clipping the gates while, odds are, your competitor's lounging at the base sipping a cold one. tbo

Owning Your Location Pays Dividends

December 8, 2009

I've had the privilege recently of being invited to help a family through a very difficult time. The controlling owner and manager of a 15-employee business recently passed away. Unfortunately, the business is not performing well. The economy, and no doubt the passing of the owner-manager, have taken a serious toll on revenue and profit.

I've analyzed the financials and assessed the situation in great detail. The very brightest of the few bright spots is that the business owns the real estate it occupies. Its value, though down, has declined far less than the business. Of course, this is what one might expect because real estate values are much less volatile than businesses values.

Because historical profits have been slim, revenue is down sharply and the business is losing significant amounts of money, the business has very little value. It can be sold, but there will be little money, if any, left over after its debts are paid. Still, there's a bright spot. The buyer of the business will rent the facility and therein provide an income stream to the widow and, to a lesser degree, the minority owners of the business.

Business owners should seriously consider doing all they can to own the real estate their business occupies. It's always important to "buy right," but it can provide meaningful financial diversification. tbo

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Searchable library of how-to information. Available online, no password required!

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Private, subscriber-only forum: It's a confidential place for business owners to converse and share. Residing on *The Business Owner* website, the forum is for all subscribers to post questions, respond to questions, and share ideas and experiences with other subscribers in a password-protected, members-only environment.

Monthly boardroom meetings. At no additional cost, all subscribers will have access to monthly webinars facilitated by staff of *The Business Owner*. Each one-hour webinar will be accessible by telephone and computer and will include:

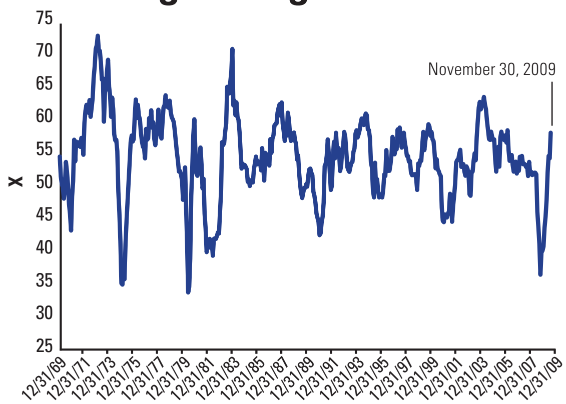
- expert presentation on the scheduled feature topic (approximately 20 minutes)
- open discussion on the topic (20 minutes) among all attendees/subscribers
- open discussion on any topic of interest to an attendee/subscriber

Go to the URL address at the bottom of this page to begin taking advantages of the many ways you can get the how-to information you need to succeed as a business owner. tbo

STATISTICAL DATA OF INTEREST

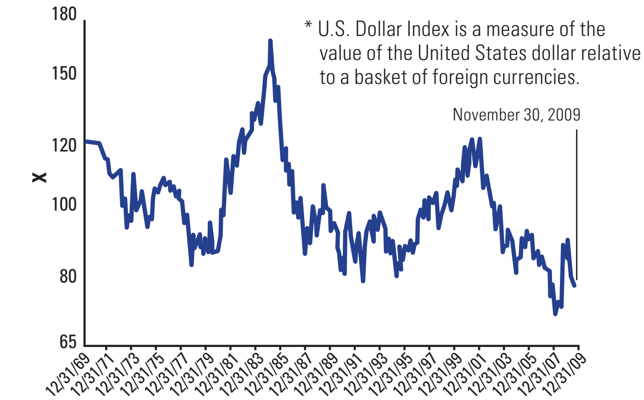
Six new and easy-to-read charts that present up-to-date information that's informative and actionable. During the course of the year, 30 charts in total.

Purchasing Managers Index



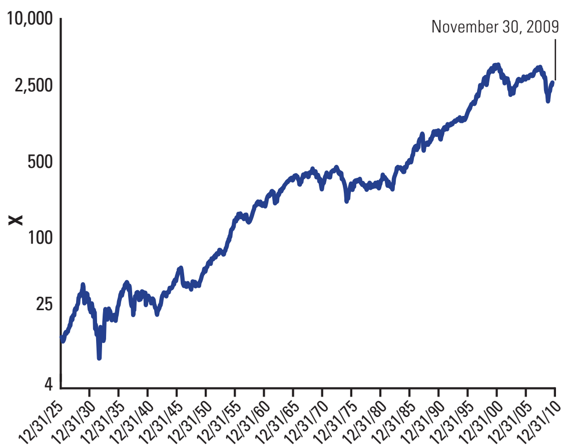
Source: U.S. Department of the Treasury and White House Office of Management and Budget

U.S. Dollar Index*



Data Source: Federal Reserve Board Chart Source: The Chart Store

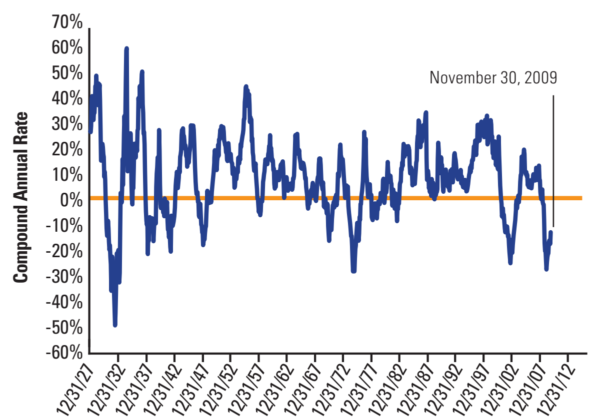
S&P 500 Inflation-Adjusted Total Return Index



Source: The Chart Store

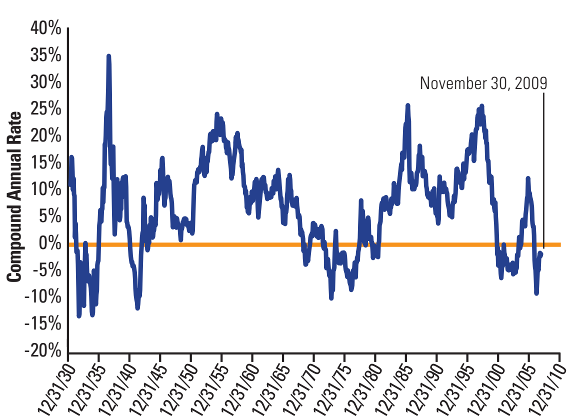
S&P 500 Inflation-Adjusted Rolling 2-Year Return

Annualized 2 year rate of return



Source: The Chart Store

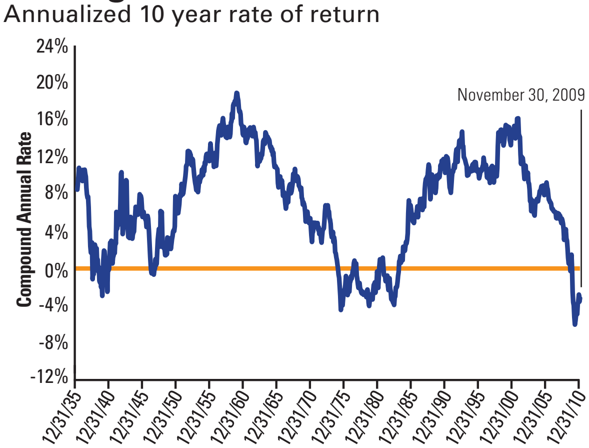
S&P 500 Inflation-Adjusted Rolling 5-Year Return



Source: The Chart Store

S&P 500 Inflation-Adjusted Rolling 10-Year Return

Annualized 10 year rate of return



Source: The Chart Store

2009 Index of Articles

Search for articles by topic. Locate past issues. Post comments to these articles. Peruse the comments of your peers. All at www.TheBusinessOwner.com.

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Monthly Business Owner-Only Discussions. Referred to as Boardroom meetings, this benefit is designed to provide an easy and low-cost "board of directors" type of function to you and your company. Each meeting begins with a presentation arranged by the staff of *The Business Owner* on a scheduled topic of importance and relevance to owners of private companies. The Boardroom meetings are immediately followed by an on-topic discussion, then an open-topic discussion period. Here are the upcoming topics:

Learn How to Spot the Sociopath and Avoid Being Taken
Wednesday, January 13, 2010 — 11:30am CST

Recapitalize Your Business/Restructure Your Balance Sheet
Wednesday, February 10, 2010 — 11:30am CST

It's Time You Owned Your Own Facility
Wednesday, March 10, 2010 — 11:30am CST

Participation is free to subscribers (whether individual or sponsored), so register now by calling 800-634-0605 or clicking on the "Community" tab in the toolbar at www.TheBusinessOwner.com/Boardroom.

Business Owner-Only Forum: Unlock the collective knowledge of your business owner peers. *The Business Owner Forum* is a place where subscribers and business owners can communicate privately and confidentially. All you need to do is post questions and provide answers to questions posted by others. Go to www.TheBusinessOwner.com/forum. Here are two questions currently posted and waiting for your comment:

"I think our entire country is at risk if we do not begin to manage our country in a fiscally responsible way, just as a business should be prudently managed. What is YOUR level of concern here?"

"What do you think about the improvements to The Business Owner Information Service?"

As a subscriber to *The Business Owner Journal* you are already registered to participate in the Forum and comment on the blogs and articles. Your user name is your email address. To obtain your password, click "Get your Password" from the login page and it will be emailed to you. If you have trouble, just give us a call at 800-634-0605 or email us at info@thebusinessowner.com.

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