



It's Occasionally Good to Lose Money

If you make a controversial statement like "it's occasionally good to lose money", it will incite curiosity and sometimes contempt. However, often there is a good point to be made.

A while back I quoted the mentor of a friend who once said; "...writing off LESS than 5% on your receivables means you're not risking enough with your customers...". It was a bold statement that inserted a numerical factor to a specific business risk. I personally have used that boldness in many different areas of developing my own business model.

I was approached with a situation a while back that further clarified my definition of business risk. A very successful, young business owner approached me about his situation. He was a very hard-working guy who had feverishly saved his money. He had earned and saved money every year since he was 16 years of age. Now in his mid-thirties he was financially over a decade ahead of his peers. In the past two years his business had grown to employ three times its usual number. The first year he made more money than ever before. But this last year he lost money for the first time in his life. It was significant enough for him to begin to worry.

I looked at him (knowing his situation was still very strong) and told him "GOOD! It's a good thing you lost money this year." He was more than a little taken back. "Now you know the limits of your natural talent" I advised.

Every great business person needs to know where their instinctive natural talent ends and where the new/better/higher level of behavior needs to be learned. I told him success grows in stages, built by learning the next "level of implementation".

Many times, young, successful entrepreneurs keep growing their business using the same success model they began with. Maybe it's that they personally control every aspect of their business, only to find out they have run out of time to manage it all themselves. They must learn that to get to the next level, they must hire competent managers. For some people, delegation and the hiring of competent people is a talent that often needs to be learned. Every growth stage requires the entrepreneur to learn some new sets of skills. If an entrepreneur doesn't grow their own personal skill sets along with their business, they run the risk of sabotaging their own venture.

All people are afraid to change, even business owners. Losing money forces a good business owner to face the fact that what they are doing isn't working. They are forced to change or fiscally die. Managing a growing business requires constant change and adaptation of both actions and character.

I know a young entrepreneur who went from success to success, making more money than I did at his age (times 10-20). He went from 1 to 35 employees in 24 months. He leveraged his success and began a buying spree. Three company purchases later he was in my office excited and ready for the 'next level'. Even though he still had a positive cash flow, I warned him against spreading himself too thin in time, energy, resources and the ability to attract the right people. His confidence was still very strong, and failure was not an option that he considered. Though it sounds romantic to be fearless, my concern is that without experiencing at least one downturn, this entrepreneur's view of success is that it is all too easy. Time will tell.

A related type of story: about six months ago my son forwarded me an article about Elon Musk, a man who moves from one giant success to another (Musk is the CEO and co-founder of Tesla and co-founder of PayPal). I told my son that probably in his lifetime he will see Elon Musk being the quintessential poster boy for roller coaster entrepreneurialism. My son did not agree with his father. I told him that Elon Musk is acting as if his actions have no consequences and that no matter what he does, he will succeed.

Too much success does that to a person. In my opinion he needs to fail to regain his balance.

Back to my friend's mentor from the first paragraph, he went through several colossal law suits in a two-year trial, the potential cost totaling well over two hundred million dollars. Before these law suits, he had never lost a single battle. After he had come face to face with his own fiscal demise (and barely surviving by the way), his heart is now always sensitive to those who fall on hard times. His new perspective is always balanced and fair, avoiding greed wherever he senses it. It was a good experience for him to lose money. It has made him a much better person.

About the Author:

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