



Building Cash Cows™  
Improving Quality of Life™

## The Strategic Edge™

Insights for improving profits, cash-flow, and quality of life

Summer 2006

This email is never sent unsolicited and American Business Advisors keeps all our subscribers' information strictly confidential. You have received this special offer by voluntarily providing your email information to us personally or at our web site.

If you have any questions about our Privacy Policy or this email, feel free to call us directly at 303-335-4218.

### **Turning Your Business Into a Cash Cow (Building Wealth Through Owning a Small Business)**

Owning your own business is not automatically the way to find the pot of gold at the end of the rainbow. According to the SBA, small businesses (companies with less than 500 employees) employ 50% of the private workforce and are responsible for 51% of the GDP, indicating that the entrepreneurial spirit is alive and well. Although 10% of small businesses with employees close annually, it is encouraging that just as many new businesses open each year as those that close. However, tens of thousands of small and mid-sized companies do little more than make a living for their owners. And what about wealth?

Can a person become wealthy by owning a small company? Let's look at facts. Here's how the rich got rich:

- Owning a Private Business—64%
- Owning a Professional Practice—13%
- From Investments—10%
- Inheriting Their Money—7%
- Working for a Corporation—6%

As you can see, 77% of the rich got rich by owning a business.

#### **BUILDING A CASH COW**

A Cash Cow is a business generating steady dependable cash flow, enabling it to fund growth and development, become a market leader, provide discretionary income, and determine its predictable value.

Research confirms our experience that the gap between an average or underperforming business and a Cash Cow can be summed up in five areas.

#### **1. RESOURCES**

*"Making creative use of the resources you have will generate the resources you need."*

Robert C. Benson III, American Business Advisors®

Yes, you need the necessary resources to work smart and grow your business. But, in most cases you can earn your own working capital and still grow at 50% per year or more. In fact, if one does not possess the understanding to make ones own working capital, it is very likely that he/she doesn't possess the judgment to wisely spend the working capital obtained from outsiders. So we recommend starting by

learning the skill of building your own working capital, that is, making a profit in the top 25% of your industry on a regular basis. Once you make a profit, sound "surplus management" is critical to your wealth accumulation. And the most important decision in surplus management is how to use it to build your business, not how to save it from being taxed!

## **2. SPECIALIST SKILLS**

*People " have certain innate abilities - talents God has given you - distinct from your achievements, knowledge, personality, interest, and values."*

John Bradley and Jay Carty - Discovering Your Natural Talents

It is not necessary to get a business education yourself in order to be successful in business. But you must be prepared to hire those who have the talents you do not. Specialty skills such as finance, strategic planning, competitive positioning, managing people, marketing, and selling are critical to improving the performance of your company. If you don't possess the abilities, hire them. It is not always necessary to hire full-time people to do them. In many cases these skills can be hired on an outsourcing basis while you are growing the business to a size where it can support full-time people in these positions.

## **3. ENGINEERING THE PRINCIPLES/STRATEGIES**

*"The key to building a Cash Cow lies n the art and science of strategically engineering its functions and dynamics."*

Robert C. Benson III, President, American Business Advisors®

One of the most valuable talents in business ownership is the ability to engineer the business principles and strategies of your company in a way that maximizes its existing resources. Remember, every business owner would like to have more capital. But the really successful ones learn how or hire someone who knows how to engineer business principles and strategies to accomplish your business priorities at any particular point in time with the resources it has.

## **4. MANAGING AN ORGANISM**

*"Best efforts, people charging this way and that way without guidance of principles, can do a lot of damage. Thinking of the chaos that would come if everyone did his best, not knowing what to do."*

W. Edwards Deming - Out of the Crisis

When a business has less than 10 employees, communication is easy. All you have to do is shout down the hall. The leader/owner talks to everyone all the time. But somewhere between 10 and 40 people it becomes an organism. And communication in an organism is much more complicated and requires "professional management" methods. That is, it needs a clear mission statement, strategic plans, a sound financial structure, formal written plans, and action planning so every person understands how they fit in and what is expected of them. To keep everyone informed on a current basis, well designed communication systems are needed. And to produce a quality product and exceptional customer service, process systems must be designed to be efficient, be functional, and accomplish the desired outcomes.

## 5. PURPOSE

*"People succeed in a free enterprise system only to the extent that they make other people better off."*

Free Enterprise

For years people have talked and written about the virtue of a noble purpose. Our experience finds this teaching to be true. We have assisted hundreds of businesses in developing effective mission statements. One of the three components of a good mission statement is Purpose. Years ago we were assisting two brothers in developing their business. They designed creative products and had found a good niche in the market. When writing the purpose in their mission statement, they informed me that their only reason for the business was to make a lot of money. We tried to motivate them to consider a deeper purpose, but they would not move from their single focus of "making a lot of money." Three years later they were out of business. A shallow purpose does not inspire people and therefore will not sustain the human spirit in tough times.

One owner of a privately held business put it this way, "people say to me 'it must be nice to have all that freedom' and my reply is 'yep, I am free to work all I want to.'" Yes, it is indeed true that owning your own business is a lot of work. But, it has its rewards - tangible and intangible. However, lots of sales can amount to nothing more than a lot of activity! At the end of the day it is only profit that gives you the ability to build a heritage for your family, employees and humanity. Profit is neither bad nor a noble purpose. But it can be a noble goal. So there is no time like the present to start learning how to build a Cash Cow so you can make your customers, family, employees, community and humanity better off.

The ABA Insider is published by American Business Advisors, Inc. to provide business and personal improvement information and ideas. All material is presented to provide general and broad information only. The information found in this publication does not constitute business, tax, financial, or legal advice and should not be acted upon without seeking the counsel of professional advisor.

**American Business Advisors, Inc.**

[www.ABAdvisors.com](http://www.ABAdvisors.com)

6635 South Dayton Street, Suite 210  
Greenwood Village, CO 80111

Phone: 303-335-4218, Fax 303-220-1937, Toll Free: 877-902-3600

© 2003-2009 American Business Advisors, Inc. – All Rights Reserved