

HOW TO RUN A BUSINESS

The Truth Revealed about Business Risk

WITHOUT RISK

Vladimir John

TEN INTERVIEWS
WITH EXPERIENCED
ENTREPRENEURS
AND ADVISORS



MERIGLOBE
BUSINESS ACADEMY

HOW TO RUN A BUSINESS WITHOUT RISK

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PREFACE

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 ex-perience 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 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.

CHAPTER 1

THE TEN COMMANDMENTS OF A GOOD ENTREPRENEUR

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.

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 important 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.

Naturally, this is wrong. Reality may be different and you are taking a big risk. You cannot extend the kitchen or seating capacity without further considerable investment. The location of your restaurant cannot be changed either. There may also be other unexpected complications: for instance, the manufacturing plant where 60 per cent of your lunchtime customers work may suddenly close down.

I: Can this risk somehow be prevented?

PM: Again, quite easily. Don't succumb to euphoria. Rely on common sense.

Don't rely on the figures presented by the seller. Always check them first. For instance, lease the premises for a year. Try to link the purchase price with future revenues and arrange to pay in instalments. And forget about using your personal property as collateral.

I: Let's move on to rule number eight then.

PM: *Have financing for the entire project ready in advance, including reserves!*

Before you start your business, arrange for sufficient funding. Of course, this might be difficult for a beginner.

You need to approach funding on a case-by-case basis, depending on the industry, company size, collateral available and duration of the investment needed.

The best way to do this is to have your own financial means and start the project when you can afford it. This is how more experienced entrepreneurs who already have one or more successful projects do it.

I: And what if I am really a beginner without significant funds and I still want to start a business as soon as possible?

PM: You can borrow money from your family, but you will be walking on thin ice.

What will you do if you fail? How will you repay the debt to your family? Don't you risk destroying family relationships once and for all? And on the contrary, what will happen if you fare well? Won't you be subjected to envious

conspiracies? Won't they blackmail you, arguing that you have to employ them - paying big money for little work - since they helped you at the start? Answer these questions before you actually ask your family for help.

I: So what are some other, more recommended, ways to get funding?

PM: A bank loan is a natural solution and the most common way to fund a new business, but it is often linked to the requirement to secure the loan with your personal property. A bank will most likely request that you use all your personal and family property as collateral.

This is an ugly spectre, and you need to keep in mind that there might be times when you won't be able to make the loan repayment instalments in time. You will be running the risk of losing all your family property.

From my point of view, the best option for funding a new project, although often neglected, is to ask an experienced entrepreneur - who is aware of all the risks, has earned enough money and has saved for hard times and maybe even for investment - to invest in your project.

If an experienced entrepreneur tells you your project is nice and likes it, then there is a good chance it will be successful. If you hear the contrary, you'd better discontinue your project.

I: What do you mean by saying we should have reserves?

PM: We often meet entrepreneurs who had decided to start a new project without sufficient funds for the time period before the project actually starts earning them money.

And there have been even more who did have money but didn't take into account any risk, and didn't have the necessary reserves. They were thus unable to keep the project running, even though it was ready and only needed a little more time to start making money.

For instance, I met an entrepreneur who had invested his entire family savings, amounting to half a million pounds, into a real estate purchase and reconstruction. In the end, he was short the two million he needed to buy technology. He could come up with no better idea than to ask a usurer for a loan.

You can probably guess how it all ended - he almost lost everything he had. We helped him reach an agreement with the usurer, but it was a close call. Don't ever borrow money from usurers.

I: We are approaching the end. What is the penultimate rule, number nine?

PM: *Think about company costs in advance and continually try to optimize them!*

Although it may seem absolutely obvious, this risk is often treacherous and people tend to neglect it. Moreover, it has been proven that entrepreneurs are truly allergic to cost cutting.

I will start by giving a simple example from our experience. We will talk about a medium-sized company and a rather experienced entrepreneur who bought real property for his limited liability company using his personal money and turned it into a freshwater fish processing and freezing plant.

As a distribution channel he decided to deliver fish directly to customers' doorsteps. He bought thirty customized freezing vans, hired thirty drivers and equipped them with mobile phones and tablets.

In quite a short time it became obvious that customers were not very interested in direct delivery, even though our entrepreneur added other frozen items to his assortment. His main customers were big supermarket chains. He could have easily served them with just half of his fleet.

So he made fifteen drivers redundant paying them a fat redundancy payment, returned fifteen vans to the leasing company with a loss, threw fifteen tablets and mobile phones into a box and we won't mention his contractual obligations to the mobile operator.

When he calculated all the steep costs incurred as a consequence of his wrong decision, the loss amounted to millions of pounds.

I: What should this entrepreneur have done instead? What did he do wrong?

PM: You always need to think of costs in advance, don't take unnecessary risks.

In this particular case he simply could have bought the vans gradually, tried things out, had consultations and used his common sense.

You often take decisions about investments, but they don't necessarily have to be right. You need to make thorough calculations.

This is not just the case with initial and investment costs, but also with operational costs. These too can and should be continually watched, monitored and optimized. This way you can save considerable amounts that can be used for your business development.

I: And our interview is coming to an end. We only have one rule left, rule number ten.

PM: *Keep written accounts of all your business relationships from the beginning!*

This may seem like a needless rule, as you may think everyone must find this obvious. But this shortcoming is entirely common for smaller businesses.

When we want to convince them they should put all their oral agreements down on paper, we ask them if they would like to sell their company one day. They often answer that probably yes, when they grow old and have no children who would like to carry it on.

We ask them to imagine they are holding negotiations with potential buyers who will ask about their relationships with suppliers and customers. They reply that these suppliers and customers are good friends of theirs and they have always found a way to reach an agreement. But that doesn't automatically imply that the new investor will reach such agreements, which decreases the company value.

Written agreements with business partners thus have a direct impact on company value, despite the fact that even oral agreements are legitimate.

Simply said, spoken words come and go, only the written words remain. So before you sign anything, read it through carefully and more than just once. If there is anything you don't understand, find an expert. Always communicate and negotiate with the other party. Any agreement should express consent of two or more parties and should be balanced.

I: You gave us some advice at the beginning. Do you have a piece of advice for us at the end?

PM: I do: *don't spend more than you make, and set aside reserves for a rainy day!*

I wouldn't be saying this if everyone followed this advice. There are still many entrepreneurs who spend everything after they achieve their first considerable success. They start living extravagantly.

But good times are followed by bad times. The question is not whether these times will come, but when.

...

We may conclude by saying: if you already knew the abovementioned rules and have been following them, then at least you have reviewed them and can make sure you are doing things right.

But if these rules are new to you or you don't observe them when managing your company, give it some thought and make changes for the better by putting in place the right provisions for your family, your business and your property, in order to safeguard them from business risk that lies in ambush wherever you go.

The purpose of our instruction is not to discourage you from doing business, but to set you off in the right direction so that you don't risk everything for little gain.

And if you have already made some business mistakes, you should realize that there is no shame in that. What would be a shame is if you did not learn any lessons from them.

CHAPTER 2

HOW TO LEAD A COMPANY THROUGH A CRISIS

As you might have noticed, I use simple language and try to avoid, with some exceptions, foreign words. I have no intention of making it complicated for my readers to understand the topics discussed or depriving them of their precious time. You may have also noticed that I often mention business risk and managerial mistakes, which are issues that are not very popular.

I am not going to use the word “success” in every single sentence as a populist would, despite being aware that this may result in fewer people buying my books. But those who buy them will be the people who realize that success lies primarily in avoiding problems and preventing risks. If my advice helps even just one entrepreneur in a million, then my effort has proved to be meaningful.

While preparing for the first interview, I was already thinking about the topic for the second one. During my years as a consultant I held many lectures on how to get a company through a crisis, which is a topic that makes a good follow up to the first chapter.

Before you start your own business, or if you are just about to start, you should be able to recognize the signs of a possible crisis and know how to prepare to face it. This is the only way to become a successful entrepreneur who will not easily be caught by surprise.

Time has shown that this topic was a good choice, as this interview has got plenty of positive feedback, particularly from abroad. You may think you only need to read it after you have got into trouble, but I recommend you read it to prevent trouble.

This time our interviewer (**I**) talks to two experts: an advisor for small and medium-sized companies (**A**) from Meriglobe Advisory House and a lawyer (**L**) who cooperates closely with this company.

I: Each day many companies all over the world get into difficulties that threaten their existence, and some of them go bankrupt. How to lead a company through a crisis is thus a very hot topic.

What does it actually mean when we say that a company is in a crisis?

A: Generally speaking, a company crisis can be defined as *an imbalanced condition in which the company faces great danger, or even bankruptcy.*

There are many ways a company can get into a crisis. Today we will discuss how a crisis can be detected in time, if not prevented, and how to get out of it. After all, it is the duty of every entrepreneur who really means business.

The most frequent cause of company crises is inexperienced management. A company owner or director without the necessary experience is not only unable to manage a company well and prepare it for a possible crisis, but also he or she often cannot even recognize that a crisis is just around the corner and their response to it is inappropriate.

The signs are visible long in advance, and they can be easily discerned by experienced entrepreneurs. Then we don't actually need to talk about a crisis, it is just qualified problem solving. The truth is that crises sometimes appear quickly

and that they may be caused by, for instance, losing a significant customer or a disagreement between company co-owners.

I: Obviously, not all crises will be the same. Can they generally be divided into categories somehow?

A: The basic distinguishing feature is whether they come from the outside or the inside.

If they are from the inside, they are mainly due to management's inadequate decision making or failure to react to intuition. If they come from the outside, we usually try to identify whether they are from the vicinity, that is, from their own town or region; from a wider environment, usually from a government; or even from the macro-environment, which could be a continent or worldwide. Those from the macro-environment are usually big disasters such as market collapses, world crises and so on.

We also observe their speed and distinguish between sudden and gradual crises.

As far as sudden crises go we usually know the causes, but we can only guess when they will strike. These may include fires, hundred-year floods or acts of terrorism.

The original causes of gradual crises usually deepen and affect other company subsystems.

I: What are the typical signs that a crisis is about to strike?

L: There are quite a lot of them. Surprisingly, the first one is *sleepless nights*.

Entrepreneurs often wake up in the middle of the night and think about various problems. The natural high from the business starts to fade away and complications begin to arise. The entrepreneur often doesn't actually know what exactly is going on, but they should start analysing the problem and intensively seek the reasons for their sleeplessness. This insomnia will most likely be due to stress and problems in their company.

Other signs may be *mistakes due to human error*. You start realizing that some managers cannot handle all of their duties. They carry out the tasks assigned to them only partially or not at all. They make wrong decisions, which trigger crises or otherwise contribute to their onset. Sometimes their actions may even be motivated by an intention to damage your company.

An unmistakable sign of a crisis is when *internal standards and mechanisms fail*. This particularly concerns insufficient control over procedures. Oftentimes, it is enough for someone answering the phone to communicate with a customer inappropriately, and the consequences affect the whole company. Due to an insufficient system of controls, the company owner finds out about it too late or searches for errors elsewhere. The reason might be defective standards or company guidelines, which could be either downplayed or circumvented in practice.

If you actually don't happen to have any internal guidelines, this may be the source of many problems. The solution is to write some down at once and to train employees on a regular basis.

I: Are there any other signs that can help us recognize a crisis?

L: Yes, for instance *a long-term economic loss*. You must do business primarily for profit.

If your company has been facing a loss for several consecutive years, you should consider the reasons and justifications for its existence. What is literally happening is that you are consuming the assets you invested into the company, or spent many years building, as they are being handed over to your company's creditors.

Those who realize what is happening in time and file for bankruptcy, actually win.

I know it is easier said than done, but if you bear this in mind from the very beginning of your company's existence, you can quite easily tell when you simply have nowhere to grow, your field of business is facing long-term problems and it is best to call it quits.

Consider whether your company's economic results can still be turned into profit or if it is better to avoid serious and devastating losses.

I: Can you name any truly typical specific signs of arising crises that we can recognize a little earlier?

L: One is, for example, *an increasing number of payments not made by the due date*.

This is really the most frequent sign that there is something going on in the market. Every entrepreneur must take notice and search for the cause.

Might the reason be that it is holiday time and nobody is in the office? Or is it due to growing unemployment causing a decrease in the demand for your product? Do you have poorly defined contracts with your customers, so you are actually providing them with interest-free loans?

A good entrepreneur will soon find the answer, put those findings to use in the overall company strategy and execute the necessary measures aimed at success.

Another similar sign could be *an increasing number of unpaid liabilities*.

If your company's liabilities keep growing, you should not be sleeping well. We normally distinguish between primary insolvency, which means you didn't accurately assess your investments and thus are spending more than you can afford resulting in late payments on your liabilities, and secondary insolvency caused by late payments from your customers.

Both types of insolvency need to be addressed promptly, as the risk of your company being declared insolvent continues to increase and your company's reputation will deteriorate quickly. What we have seen in our experience is that those who don't have enough cash generally keep postponing payments on big invoices and pay only the small ones. That is obviously a very serious situation, but as I said, a good entrepreneur will soon detect the root causes of the crisis and start sorting things out.

At the same time, you should also be concerned by late payments for wages, social and health insurance premiums or taxes. The solution usually lies in changing the overall strategy. Partial solutions are often insufficient, if not non-existent.

I: As you can see, there are really many signs that should alert an entrepreneur to a problem.

L: And I will add a couple more. Another easily recognizable sign is *a decreasing number of orders*. This sign doesn't have to be alarming if your business margin, and thus your net profit, is increasing. But you certainly need to look for a solution if you are losing big repeat customers, facing complaints, your market share is decreasing or competition is becoming tougher.

In addition to a lower number of orders, another sign could be *a decreasing business margin*. When customers suddenly start urging you to decrease your prices, it may mean several things.

For instance, that there is a new manufacturer who is offering them lower prices, albeit with lower quality too. If this is the case, you need to emphasize in your marketing the high quality of your products and the other advantages of doing business with you.

Customers may also push you to reduce your prices because their sales are on the decline, usually long term. Then you need to consider whether you will decrease your prices or take alternative measures such as searching for new markets and customers, innovating your products or enhancing your marketing.

Yet another sign is *an increasing number of finished products* in stock. This may signal either a temporary or permanent decline in demand for your products. You need to analyse this information very carefully.

I: How else can I tell that my company is in a crisis?

L: A quite serious and hard to resolve sign is *a deteriorating ratio between your own and third-party assets*. This means that the amount of money you owe (the bank, for example) is increasing. The result is a growing risk that you will have to pay more in interest, which will eliminate more resources for paying other debts and investments.

An equally significant warning is *falling liquidity ratios*. Simply said, count all the money you have in cash and in the bank. You should have enough money to pay all your short-term debts. If the result isn't good, it is a sign of a crisis and you need to start coping with it.

Another sign is *decreasing reliability of supplies*. Your suppliers start offering worse conditions for supplies and payments and request better security, either through contracts or assets. This is a sign that they have heard negative information about your company and that you are losing credibility in their eyes.

I: And what about some signs that don't relate to money?

L: You should be particularly alarmed by *increasing absence and turnover of your employees*. If your employees don't know their duties and responsibilities, or feel their employer is becoming weaker, they will stop working at their full capacity. They will call in ill more often and search for new jobs.

If you find an employee's CV on a job recruitment website, it doesn't necessarily have to be a sign of a crisis, but you certainly shouldn't ignore it. Try