

# 10 Things Every Small Business Needs to Do

Most of the challenges in [starting a business](#) relate back to doing the little things right. Like any good coach has said at some point: The fundamentals get you to the top. If you are thinking of starting a small business, make sure you follow these ten important rules for small businesses:

## 1. You need to manage your cash.

The number one reason small businesses go bankrupt is lack of *cash*, not lack of profits. You need to do good cash planning, and really understand the levers in your business that can affect your cash. Do you buy inventory? How much should you have on hand? Do you collect payments from clients? How long does it take them to pay you? Do you have loans you need to pay back? Do you depend on supplies that vary in price due to market conditions (fuel for instance)? There are a series of “levers” in your business that will affect your cash position. You **NEED** to understand those levers.

## 2. You need to develop a data-based culture.

The more you can track data and use data to make business decisions, the better your decisions will be. Business always requires some “gut feel” decisions but better to inform your gut as much as possible with all the information you can get. Tracking key performance indicators (KPI's) for your business, and understanding why they go up or down, can help you make decisions that will grow your business and keep you on track.

### 3. You need to engage in Lean Planning.

It's important to develop a strategic and financial plan and track it on a regular basis, as opposed to a doing a long written document that you use once and stick in a drawer. Planning is an ongoing tool that should be used to understand assumptions you have about your business, and whether those assumptions are correct, or whether you might have to make adjustments and change your assumptions. 60 percent of the small businesses that fail in America fail due to lack of cash, not lack of profits—using Lean Planning you can quickly understand if you have missed assumptions about your financials that will ultimately have an adverse effect on your cash. Maybe you thought you were going to get paid promptly every 30 days. By engaging in ongoing planning and then tracking the actual results of your business compared to your plans you can quickly figure out if in reality you are getting paid every 45 days (instead of every 30 days), and if so, you can quickly and appropriately increase your credit line, and keep your business cash healthy—before you get into trouble. [Live Plan's Scoreboard](#) is an easy-to-use planning and financial tracking tool that we use to do Lean Planning and it integrates with a business's QuickBooks account to make the tracking piece easy and automated.

### 4. You need to understand your margins on all your products and services.

I have worked with a lot of small businesses that only understand their bottom line, and not how individual products and or services contribute (or take away) from the bottom line. I recently talked to a small business commercial banker who was trying to help a client get their business ready to sell. It was a business doing \$20 million in revenue per year that had been around for 20 years. The owners were shocked and dismayed to realize how little the business was actually worth—because their profit

margins were so dismally small. In a \$20 million business they were only making about \$110,000 in profits. It turns out when they dug into the business they had multiple product lines that were dragging down the profits due to terrible margins. Had they gotten rid of those product lines, they would have only made about \$13 million in revenue, but over \$1 million in actual profits.

## **5. You need to have a strategy for recruiting and retaining talent.**

We are always looking for quality talent in our business, so we make it a point to regularly track talent in our region and develop great programs and benefits for retaining talent. Take time to think about company culture, and what you want the culture to be, and make sure you bring culture into the hiring decisions. LinkedIn is a tool we use regularly for tracking and recruiting talent.

## **6. You need to listen online every day.**

Your business is “always on”, even if you only operate between 9 am and 5 pm, Monday through Friday. Every business should set up alerts online to gauge what your market is saying about you, your competitors and your market in general. Google Alerts is a great tool for “listening” online (and it’s free). Be the first to know when a customer gives you a bad review, or someone raves about your business online. Use these tools to stay ahead of the chatter and use it to your benefit.

## **7. You need to engage in marketing that gives you ROI.**

Small businesses often tell us that they don’t understand marketing. Where should they spend money? Does it work? Should they advertise on the radio, or online? Should they listen to the Groupon or Comcast sales person trying to sell them on giving coupons to the masses or buying local TV ads? What works? What doesn’t?

Small business owners need to start in places that can be free and easy. Start by networking with local businesses and local business owners. Find out what they do that works. Use your website and google analytics (a free tool) to find out how people find your web site, and where they come from. Talk to customers and ask them how they heard about you. And when you do advertise, figure out how to track the advertisement. Do a special deal and track it (measure). Offer only a certain service or product. Learn what works, and what doesn't, and repeat your successful marketing promotions. Don't spend money if you aren't going to be able to measure the results.

## 8. You need to talk to your customers.

Every business should talk to its customers as often as possible. If you run a retail store, talk to them at least a few times a week (if not every day). Find out what they like—and what they don't like. If you run an online business, ask a few survey questions after check out, or send a quick survey to your customers. Call them. People like to talk, and people like to be asked their opinion. The negative criticism may be hard to hear, but it's well worth hearing and understanding how you can change things to make your business better for your customers.

## 9. You need to know your competitors.

You need to know and understand both your direct and indirect competitors. You always need to keep an eye on your competitors, understand what they are doing, how they market, what their pricing is, etc. You may be unique in your town, or in your industry and not have direct competitors—but that doesn't mean you don't have indirect competitors. A local do-it-yourself tie-dye shop in my town has no direct competitors. But they offer activity-based events, and compete with all the other establishments that do birthday parties and events for groups. They also compete with the Saturday Fairs and Markets that have other tie-dye vendors. They need to know

how to position themselves against all the indirect competitors—even though they don't have direct competitors.

## **10. You need to have a higher purpose.**

People like to work for businesses that are more than just a machine for making money. That doesn't mean that you can't have sales goals, and profit goals; it just means that your employees will work harder and be more loyal if they feel like they are contributing to a greater good. Customers also like to buy from businesses they feel have ethics and passion. Patagonia has been famous for doing this well. They have good quality clothes that are pretty expensive. People LOVE Patagonia—both as a place to work and as a place to shop from. One of the things that makes people loyal is all the money that Patagonia gives back to help save environments and ecosystems all over the world. People are willing to pay more for clothes made from fair-trade cotton. Patagonia wins big from the ethics it uses to manage the business. Palo Alto Software is a small business, and we help other small businesses be successful. We sell our products and definitely have sales goals and profit goals, but we are also passionate about helping entrepreneurs. We [donate tens of thousands of products](#) per year to different programs to help students, underserved entrepreneurs and minority entrepreneurs, as well as to other organizations and projects. We give free advice and mentor companies for free. We stand behind our products and services and we give money back when people are not satisfied. Our customers like this, and our employees love it.