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Business Sense— Common Sense?

Observation suggests that some persons are better “business persons” than others. Some rise to leadership, envision farther, make more money, take prudent chances, lose less, create products and services, acquire significant assets at low prices, enshrine their names on books and buildings.

Who are these people? What are these people? Why do they make it big?

The Negative Answers

The elusive answer is first apparent in the negative, in the business proposals and procedures of individuals who have not made it because their ideas and actions self-evidently conflict with common sense and human nature. In the positive, the answer is more intangible, described best by references to skills many persons display, such as the skill of listening, writing, and communicating within logical business contexts and with sufficient financial wherewithal. Another contributor to success is the wondrous attribute of luck, once properly acknowledged by Malcolm Forbes, who said, “I built this business the hard way. I inherited it;” and by Yul Brynner, who said, “I would have been nothing if a director had not cast me as the King of Siam.”

Some business proposals fail on their face. They reflect an ideal or a

personal ambition of the proponent, not a reasoned understanding of business circumstances, competition, or of the criteria and needs of potential financial backers. I offer you three examples of such ideas that each reflects a failure to examine fundamentals.

Relative Stupidity

A few years ago, the husband of a cousin called me at Dean Witter to ask us to raise capital for his construction business. “What is your plan,” I asked. “To build homes,” he said. “But have you not been doing that for ten years now,” I asked. “Yes, of course,” he said, “but now is the time to expand.” To the trained ear, his proposal translated to, “I’ve lost some money, need more to continue, and I want to use someone else’s.” Six months later he and his wife, my cousin, abandoned the city of their birth, the home of their construction business, and moved to another city, near her mother, who is also my aunt. Without delay, they asked her to guarantee a personal loan so that daughter and hubby could buy and operate a commercial athletic field. Twelve months later, the field failed, and my aunt was forced to mortgage her home and to live with the psychological burden of that debt while also fighting emphysema.

My cousin and her husband could have lived a fine life by working

Relative Stupidity, *continued from page 1*

for someone else. Or, they could have pursued the private business by contacting commercial lenders and government agencies. Perhaps they did. I'll never know. But, as they clearly knew, the heart of a parent is always soft. That heart does not ask for a written business plan. It does not evaluate fundamentals. It does not ask questions. It whispers to the soul, "These are my kids. I need to help them." By approaching my aunt, the cousin and cousin-in-law were not forced to think things through, to get support from impartial sources, such as the Small Business Administration, banks, or insurance companies whose application procedures force thinking and consideration. Instead, they pursued my aunt in the same thoughtless manner they had pursued me, with no recognition of the risks or of the personal pain that could be inflicted—that was inflicted—on an elderly person whose sense of personal retirement security was severely impaired by the injudicious actions of two persons having neither business sense nor common sense.

Passion Trumps All

Similarly, a fellow called recently to ask how he could start a limited partnership to acquire art. In a breath, he was saying, "I love to buy art, but I do

not have enough money to do it. So, how can I do it with someone else's money?" The answer: "You cannot." Building on his assumptions, we discussed the differing personal positions of 10 persons, each contributing \$100,000, to hold the art selected by my caller. I asked, "What about their tastes? Which investor gets which piece of art? Where does the art appear? Do you rotate it among the investors? What if the wife of one can't stand the piece due her on rotation? What do you do when a limited partner passes away? Do you under-pay his heir by selling the weakest pieces, or do you dilute the interests of the others by selling the most marketable objects? How does a partner get out? How do you value his/her interests? How do you compete with rental galleries that permit art lovers to hang a piece on the wall for three months and then return it or buy it?" The issue was not feasibility, for I presume that almost anything, properly structured, is feasible. The problem was that the proponent had not thought it through. He had an idea one day, got excited, and called. His voice reflected perplexity over issues that should have been considered long before his idea was taken out for a spin. The absence of forethought is a good prognosticator of failure. The absence of a thoroughly prepared written plan hints at future absence of care in implementing the proposed business.

Delusions of Grandeur

A final example was a proposal among three friends, two of them a married couple. The idea was that the three would purchase a home in Costa Rica in which the married couple would live. I was surprised that this proposal ever got to the stage of serious consideration by the third person because the only benefit of this arrangement was to the residents. The third friend was to supply capital and get nothing in return—not the ability

to retrieve her money whenever she wanted or even a practical possibility of vacation time in the home because airfare was about \$1,000, and the live-in couple would control scheduling. The married couple was self-deluded. Those two were so enthusiastic, so turned on, that they imagined a benefit to their friend. Self-delusion arising from exaggerated enthusiasm is common among persons without business sense. They become so enamored with an idea that they cannot empathize with outside investors. This is not dishonesty or a knowing attempt to exploit. Instead, it is blindness. Fortunately, the third investor bowed out.

The cousin-in-law, the art enthusiast, and the married couple failed to place themselves in the shoes of the investor. They wanted someone else's money but did not attempt to identify with the perspectives and the needs of persons or entities providing money. They wanted easy money. Thanks to a soft heart, one got it. The others did not because no hearts were available to fund their schemes.

Franchising Business Sense?

While the biggest profits always inure to the independent founders and creators of a business, acquiring a franchise often makes sense, especially in large distribution businesses that have many locations and centralized supply. MacDonald's is the best example. Since the franchisor comprehends the formula for success, it imposes selection criteria on prospective franchisees. Franchisors thereby impose good business sense. The criteria include personal financial staying power, good health and willingness to work long hours. Of course, franchising is not immune to silliness, such as the two fellows in Indianapolis who wanted to

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franchise and to charge franchise fees for an automobile detailing business as if they had some magic to contribute to the process of buying a hose, filling it with water, spraying the water on a car, wiping it off with a chamois, and cleaning the inside with a vacuum.

Teaching Business Sense?

Sometimes, a sound business becomes institutionalized in courses and services to help people do what they otherwise could do on their own without paying tuition or fees. Independent study would achieve the same end at lower cost and more effectively because the learning experience would be more direct. The example is liquidation and rehabilitation of federally subsidized houses. The Department of Housing and Urban Development routinely sells distressed properties. Entrepreneurs buy these properties. Then, using their muscles and mind, or hiring professionals, they rehabilitate the properties, later selling them for substantial profits. The business is simple and sensible. It benefits all parties. However, like all simple businesses, the challenge is gaining experience by spending 12 hours a day to get the job done. Early in the business experience, the novice capitalist learns how to buy the property and to obtain bank financing. This is followed by the drudgery of rehabilitation, best accomplished by people with a natural bent for tools, electricity, hammers and nails, and paint brushes. The more work “done by yourself,” the lower the expense, the greater the profit.

The conundrum of this business is Amway-ization of a healthy concept. Every year, thousands of “let-us-get-more rich” attend courses on how to participate in this “lucrative enterprise.” They pay big fees, upwards of \$500, to sit two hours in a motel conference room, to learn academically. The courses are provocative and stimulating. Teachers are good speakers and motivators. The

group becomes enthusiastic. At the point of greatest enthusiasm, the course sponsor offers additional fee-based services, such as arranging purchases and financing, advising during rehabilitation, and assisting in sale of the improved property. The obvious message is that you, Mr. or Mrs. Business Person, can continue your present lifestyle. You can have a leisurely retirement, or you can work eight hours a day at your primary job, while becoming rich on the side. You do not need to commit 100 percent. Maybe 20 percent will do it. “We will do the rest.” In a swoop, a simple activity becomes complicated by the insertion of intermediary services that promote. The promoters engender self-defeating effects of increasing costs and reducing inherent profit as more people try to make a go of it. The larger number of half-committed entrepreneurs increases competition to buy the properties and raises prices at auction. The suspicion arises that promoters make more money teaching courses and arranging financing than by the down and dirty. They saw that rehabilitating a home is hard work, but that teaching courses is both easy and lucrative.

Commitment

Through courses, reading and observation my wife and I have seen potentially lucrative business opportunities, but we always lose interest on understanding the amount of work, the magnitude of commitment. Any business looks good when promoted by persons in fine suits. The business looks tough after dust gets in the lungs and a hammer strikes the finger instead of the nail. The larger point is that persons attracted to packaged business activities, the kind promoted through public “seminars,” appear to be searching for a side activity instead of for a full-time commitment. If the searching “business person” is a physician, attorney, accountant, engineer or other professional, their

friends and clients wonder, “What is wrong? Why is he not using time to study his profession and to serve more clients?” The individual having positive business sense, and common sense, would not seek packaged opportunities without willingness to give up other activities and to commit 100 percent. Total commitment is a prerequisite to success. Even for an intellectually and procedurally simple business, such as buying and refurbishing distressed homes, a substantial personal commitment is required. The rehabilitator cannot get the job done in reasonable time without 12-hour days. If he works more slowly, additional interest expense reduces profit.

The Positive Answers

The person having “business sense” thinks first about the potential success and the social/economic contribution of a proposed business activity. He (and equally she) evaluates the business prior to imagining his personal reward. This distinction is subtle, but important, perhaps crucial. The goal is to create a naturally viable entity. In contrast, packaged programs such as Amway promote potential for personal income instead of potential for other forms of reward, such as dividends and capital gains, and the satisfaction of fulfilling a social/economic need that is not satisfied elsewhere. Amway dealers do not create enduring enterprises because most Amway-type products are fungible and sold more conveniently at retail stores. The Amway distribution system is expensive relative to Wal-Mart and Kroger. The system depends on personality and labor more than on fundamental value.

The successful visionary entrepreneur is a humble listener before potential backers because backers will not provide capital unless the proposed

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business will return their investment and a handsome return. In conversations, presentations, and written proposals, the proponent of a new activity will get nowhere by subliminally communicating primary interest in increasing his personal income. This ambition is presumed, but backers want their need accommodated. Their need is for a permanent, sensible business that will make money from its inherent logic. They want to invest in businesses likely to be around long after the founder is gone. In contrast, the athletic field, the art enterprise, and the Costa Rican home, as well as Amway dealerships, depend on the energy of a few individuals, not on the known demand fulfilled by the likes of a laundry, gas station, grocery store, accounting service or financial service. My aunt would have been happier had she followed business principles instead of her heart. Long range, my cousin and her husband also would have been happier because they would have avoided a financial loss.

Listening in business is not the technical ability to hear and to remember. Instead, it is the capability to understand and to evaluate. Listeners comprehend the motivations and experiences of persons on whom they rely for information. Listeners look for misinformation. For example, information provided informally to travelers is frequently inaccurate. A clerk, receptionist, or another traveler cannot resist giving advice and directions though they do not know the facts. Travelers are better off relying on advice of professionally produced printed tour guides than

on suggestions of friends. Writers of guides get information directly by visiting and talking to tour sponsors, government agencies, restaurants and hotels.

The habit of getting information from the horse's mouth was acquired by Bernard Baruch (broker, advisor, investment banker, financial confidant of Winston Churchill and others, and confidant of Presidents Roosevelt and Truman). As a young man, Mr. Baruch heard that So-And-So was buying a stock. Mr. Baruch then bought the stock only to see it decline. He ran into So-And-So and asked, "Why did you buy that stock?" The man said, "Young man, I never bought that stock. Next time, if you want to know what I am doing, ask me."

Skeptical Deciders

Persons who select securities for themselves and for others must exercise common sense and business sense. We must judge whether the business activities of another person or entity make sense. A new stock offering of an Internet "dot com," a company without a business history, without assets or earnings, does not make sense. The business of an oil company makes eminent sense. It has fundamental importance in every corner of the globe. Its forward movement is pushed by demand. Most oil companies prosper with or without good management.

Portfolio managers constantly judge both the actions and the opinions of others. We are in a business of opinions, thousands, millions of opinions each a day, from

analysts, strategists, brokers, promoters, and investors. We listen, and question. We doubt. We skeptically read stock reports provided by investment banking firms because these reports always are positive. The firms cannot afford to offend company managements. Also, reports cover one company. Reports do not place a stock within the context of individual risk tolerance or diversification standards. If asked on the phone for a personal recommendation, analysts are likely to say that the stock they recommended should be kept below 5 percent of a total portfolio. They do not say this in print.

Personal portfolio managers are the gatekeepers of financial opinion. We need to choose. To make choices, we must have a solid philosophy about business and common sense, about the effectiveness of executives, about the wisdom of business proposals. We need to avoid the nonsensical and detect the misdirected.

The art enthusiast would not have been so cavalier had he first talked to art dealers and collectors, listening and evaluating. The friend of the couple who wanted to buy a home in Costa Rica did listen, and chose wisely. My aunt would not have guaranteed the loan had she walked the athletic field. Successful business persons walk the field.

Good night, Dorothy. You done good.

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