The Seven Myths of the Privately Held Business

by Josh Patrick, CFP®

Most owners of privately held business have a view of themselves that is significantly different than the rest of the world. I find that many times the entrepreneurs we work with will feel guilty about how they live their personal and business lives until we help them understand that they are no different than most other owners of businesses.

If you own your business and are relatively successful, you have to do a variety of activities successfully. First, you have to find Customers who want your product. Second, you have to build that product at a cost that allows you to add value. Finally, you have to control your costs to a point where you have something left at the end of the year for your efforts.

Let's take a few minutes and visit with our friend John Aardvark as he takes us through the seven myths of the privately held business owner.

Myth One: I started my business with the sole purpose of making as much money as I absolutely can.

> *John was talking with a business broker who told him that John could cash out for a huge amount of money. She told John "obviously you started your business to make as much money as possible." John was thinking that the real reason he started his business was because he thought he could provide better products at a higher value for his Clients.*

You most likely made much less money than you could have working for someone else for at least the first five years of your business. However, you kept working and building because of the thrill of providing a service that was unique in your market place.

Most entrepreneurs we work with think it's very nice they make good money, but that was not the reason they started their business. Most of the time they thought they could provide a better product or they wanted the freedom to have a company that "did things right."

Myth Two: I'm a huge risk taker

> *John was talking to an equipment sales person who wanted him to purchase a brand new model machine that had never been used before in his company. The sales person told John that all business owners are risk takers and that's the only way to be successful.*

Most entrepreneurs I know will start running the other way as quickly as possible when a dangerous risk to their company appears. Yes, you had to take a risk to start your company. However, if you think back to the beginning, you might not have thought it was much of a risk, or it was a lower risk than the alternatives you were facing at that time.

Successful business owners are likely to be good stewards of their business and are in fact, risk adverse when it comes to "betting the farm" on their business. Risks that are taken by successful business owners are small ones that can be afforded. Large risks are those taken by people who are no longer in business. So, when someone suggests you take a huge risk, you can pass and feel good about it.

Myth Three: Your business is your most risky investment

> *John was talking with his stock broker and discussing whether he should invest $100,000 in new equipment or take the money and invest it in stocks. His stock broker told him that he should diversify his investment because his business was much more risky than the stock market.*

How many times have you heard that you need to diversify because your business is such a risky investment? There are lots of very good reasons for diversification. However, none of them is because your business is the investment that has the most risk associated with it.

In my experience, most privately held businesses that have been around for over ten years are the least risky investment for the owner of that business. In John's case he has been running his business for over twenty years. He accurately believes that if there is a serious deterioration in his business, he will know about it years before the rest of the world figures it out. So, he has had a very difficult time buying the argument that his business is a high risk investment.

Myth Four: You can't disagree with the boss

> *John was talking with his accountant who was once again telling John what a good business person he was. As John was listening, he was hoping that someday one of his advisors or employees would tell him where he could improve his operations.*

To be successful you must be clear about what you want to accomplish. This often is interpreted as not wanting an honest answer from those who work closely with you. Often, word will get out, that if you tell the boss what you really think, you'll get fired.

The vast majority of owners of closely held business owners we work with not only want people to disagree, but actively enjoy it when it happens. Those who build successful operations do so by looking for people they respect to have critical conversations about key strategies within their companies.

Myth Five: The boss doesn't work very hard

> *John was now taking six weeks a year out of the office. He overheard his office manager complaining about how much time John took off and how it was unfair that they couldn't also take that much time off. John wondered to himself if that was actually true.*

When you started your business, you probably worked six or seven days a week for several years. Also, the time that you worked was most likely between sixty and eighty hours per week. As you became more successful, you might only work five days per week, but the time at work will still be very high.

As you get more successful, you might take more time away from the business. However, if you look at the hours you spend working; it still will come out to more than the average 1,900 hours a year our employees put in. In addition, you most likely are thinking about your business whether you are physically there or not.

Myth Six: The owner wants everything simple

> *John was working with his attorney and they were discussing asset management strategies for his personal and business life. His attorney made a comment about John never wanting to do complicated strategies and as a result there was little he could do to help John stay away from potential lawsuits.*

John was really confused by the attorney's statement. He had a corporation for his vending company, a partnership with his family for the real estate the corporation was operating in and a diversified investment portfolio from his retirement plan.

The attorney made a huge mistake with his Client, John. It wasn't that John didn't like or was willing to work with complicated strategies; he was not willing to do anything he didn't understand.

If you run a business, you are already involved with a variety of very complicated strategies. As your advisors suggest ideas that are complicated, just make sure they explain them in a way that you can understand. It's OK for you to say that you don't understand and ask them to please start over again.

Myth Seven: You want maximum profits from everything you do.

> *John was speaking with his accountant about his medical plan for the year. His accountant told John that he could drop all the food preparation workers from his plan and have no legal consequences. John's accountant was flabbergasted when John decided against dropping these food prep workers from their medical plan even though John's company would have made an additional $40,000 in profits.*

Entrepreneurs rarely run their companies to maximize profits. In fact, most of the owners of privately held businesses we work with don't think an awful lot about profits unless there are no profits to think about. In other words, if their company is making a reasonable amount of money, many entrepreneurs don't see the point of trying to extract the last possible dollar out of their company.

The advisory world will often treat the owner of the business as being very high on the risk taking scale because they want to maximize their profits. In fact, most of the businesses we work with don't ever want to deal with a tax audit, much less having to go to court for a tax strategy.

This feeling about profit maximization will also often include unethical or shady deals. Most of the Clients we work with, just believe that being above board and honest is the only way to deal with employees, Clients, suppliers and the government. Any less will have them lose focus on the business and start putting their focus in nonproductive areas.

Conclusion

In many instances, the world sees you very different from the way you see yourself. If you see yourself confronted with any of the above myths while working with employees, advisors or suppliers, you might want to tell the person you're working with that their assumptions about you are wrong. It's important for you to be clear about what your goals are and how you are willing to get there.

Although you might not agree with one hundred percent of the above statements, you will most likely see some truth in each of our myths. It's important for you to know where you stand on each of these issues. Then you can correct the key people around you when they make a statement that doesn't resonate as being true for you.

I suggest that you write out a statement of beliefs about honesty, strategy risk tolerances and complexity in your life. If you share this statement with your team, you will get better advice that is more suited to what you want to accomplish.

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