

CASH IS KING

MAKING A RETURN ON YOUR INVESTMENTS

by Jim Thornton

In both tough times and in times of economic growth, there are issues you should keep in focus to maximize the strength of your business. Discussed in this article—the last of four on the topic—are universal practices you can apply now or any time.

Proper management of financial resources is important to everyone but, to the entrepreneur, positive cash flow is the name of the game. In the previous articles in this series, I have stated that generating sales is an art form. In this article, I would assert that making sure that you are generating a profit is nothing short of creating a masterpiece.

As you may already know, most entrepreneurs suffer from something called “resource poverty.” Not only do you bear the full burden of what it means to be a business owner, but you also have to be the marketer, salesperson, craftsman, and accountant for your business. Wearing each of these hats takes an inordinate amount of time and energy, and always keeping your eye on the profit ball is not easy.

To help in this process, I would recommend that you ask yourself the following three questions:

Do I have an understanding of the most profitable customer profile?

You could spend days reading volumes of books written by experts

on the hypothesis that generalists don't make money, specialists do. And it is my opinion that the road to profitability does start by defining your target audience. To appeal to both customers who are looking for a place to frame posters, and those that are looking to have original art framed, is a very tough business proposition. Not to mention the fact that sustaining that type of a sales,

What level of investments must I make to meet the needs of my target customers?

Defining your target customer helps dictate the location of your business, how you merchandise your store, the vendor partnerships you form, and how you establish your pricing model. Once you have determined what customers you want to serve, you have to match that back to

Asking yourself a few key questions can help to make clear how you should be allocating your financial resources.

marketing, and operating model requires complex management resources and capabilities. Take heart in the statement that, “You can't be everything to everyone” and set up your business to serve a target clientele.

your resources. In today's economy, be careful not to overextend yourself by setting up a business model to serve customers that leaves you undercapitalized and flat out cash poor.

What will be my return on the investments I make?

Making a list of costs is the easy part. Much more difficult is putting together the analysis that will determine if the investments you defined are justifiable. In simple terms, go through the effort to determine how long it will take to pay yourself back for the investments you have made. Keep in mind that it is key that you determine what is an acceptable time for you to wait before you investment actually starts to make you money.

For example, let's suppose you spend \$1,000 on a direct mail campaign. Ask yourself how many frame jobs it will generate and what will be the average profit per job. After multiplying those two figures together, decide how long it will take to generate enough new frame jobs to pay yourself back for the \$1,000 you invested. Finally, ask yourself if the length of time it takes to pay back this investment is acceptable and, most importantly, if there are additional profits to be made once you have recovered your initial investment.

I recognize that, to many of you, this may seem very basic. However, I am convinced that far too often in small business, people spend money based solely on a hunch or a hope that they will make money if they spend it. I agree with the adage that, "you have to spend money to make money," but that doesn't mean that there shouldn't be a methodology to how you select the best way to utilize your financial resources.

In conclusion, I leave you with the following thought. There is

money being made in our industry. If you are making some of it, I congratulate you and I would tell you that there is more to be made. If you aren't making money, I would suggest that you can do something about it. To summarize, it really comes down to defining your proper resource allocation and selecting the types of customers you will serve. If you can do that, your next level of decisions might be whether or not you should expand your store, open a new location, or, even better, if should you take that much needed vacation. ■

Jim Thornton has been in the picture framing industry for more than 10 years. He has run a distribution business, a retail operation, and a pre-framed art company. Today he is the Senior Vice President of Tru Vue, Inc., an industry supplier of picture framing glass and matboard.

