



Goltz by Jay Goltz On Business

The Art of Risk

Going into business requires taking risks. In fact, making money usually requires at least some risk, unless you put your money into a bank account to earn 4% interest. Yet the act of taking risks does not inherently give you the opportunity to make money; only intelligently risk-taking does.

Whether it's extending credit to a commercial customer or hiring a new employee with great potential, there is usually risk in making a business decision. The big question: How much upside is there to the decision, and how much downside? How we approach this question is one of the deciding factors in how successful we will be. On one end of the Risk Scale is naïveté; cynicism is on the opposite end, and skepticism is in between.

I believe that most people start out being naïve. Being naïve, by definition, is unaffectedly, or sometimes foolishly simple; not suspicious; credulous. Having not yet suffered through the consequences of bad decisions and believing everyone is honest and forthright, when we are naïve we make decisions without checking them out. (We could call this phase being a teenager, but that's another story.) There's nothing wrong with being naïve—for awhile. As a matter of fact, it could be considered charming.

At the other end of the scale is being cynical. It could also be called being closed-minded. According to *Webster's Dictionary*, cynicism implies an attitude, often habitual, of expecting the worst to happen. There's not much upside to being cynical. As a matter of fact, one might

want to make one of their goals in life *not* to be cynical. While being cynical will help you avoid making mistakes, it will also help you avoid opportunities. You can benefit from mistakes; but there's no benefit to missed opportunities.

This leaves us with a middle ground, called skepticism. Skepticism is healthy! Let's look at five situations where your mindset will be a determining factor in your success.

1. Hiring. If you are naïve in hiring, you're either in trouble or will be soon. People lie to get jobs, have warped views of themselves, and overestimate their abilities. If you are naïve, you hire a person based on what they've told you. If you're cynical, you won't hire them—you might not hire anybody. You might hire only family members or people you already know. The person with healthy skepticism would like to believe everything a person tells them on an interview, so they verify it. They call references. Maybe they do a background check.

2. Buying. Someone comes to you with what they say is a hot new moulding line. The naïve person buys everything. The cynic doesn't try anything new (their customers won't buy it). The person with healthy skepticism says to themselves: This might sell; I'll give it a shot.

Most framing retailers don't even need to buy moulding to try it out. They just need to hang the corner sample on the wall. This presents them with virtually no risk. It's a situation that really costs the cynic, because if they've

already decided their customer won't buy it and they're wrong, they've made a very expensive mistake. Thousands of dollars of potential future sales have been lost due to their self-fulfilling prophecy. (If they don't have the sample, they're not going to sell it.)

3. Advertising. This is the area that's most affected by one's mindset. Advertising is not a perfect science. No one can, or should, guarantee results. We all have numerous salespeople trying to sell us advertising space in everything from the Yellow Pages to the local paper to the church bulletin.

The naïve person buys advertising from the friendliest sales rep. The cynic has a hard time spending money on advertising because they can't be assured it will work. (Customers generally don't come in with ads saying, "This is where I heard about you. This is why I'm here.")

The person with healthy skepticism looks at the targeted audience that the publication serves and determines whether it is the targeted audience that they are going after.

Advertising can range from very effective to a complete waste of money. The only way to know for sure is to experiment. You lose on some; you make it up on others.

4. Customers. Let's say a customer comes back with their picture and they say, "The glass was broken when I picked it up." Should you run the risk that the customer is lying and allow yourself to be taken advantage of? Should you run the risk of alienating a customer that is telling the truth?

The cynic won't replace the glass because it wasn't their fault. The naïve person assumes the customer is telling the truth—and that *is* naïve!

Sometimes you can believe the customer, sometimes you can't. The problem is, in most cases we don't know for sure. The person with a healthy skepticism and a healthy business fixes the glass but doesn't lose sleep trying to figure out who is lying and who is not. As a matter of fact, in this case one may be better off being naïve, seeing the world through rose-colored glasses (broken or not).

5. Professionals. This means lawyers, accountants, and the like. Naïve people think that because these people went to college and have a nice office, they know what they are talking about. It seems reasonable; but it might be dangerous.

There are a lot of lawyers with poor business judgment and a lot of accountants that are only good for filling out tax returns. I find this quite disturbing. You could pay hundreds of dollars an hour for advice that might not be any good. It doesn't seem fair! Well, welcome to entrepreneurship.

If you were to take all of your business advice from lawyers you wouldn't be in business. That's because lawyers are in the risk elimination business. Business owners are in the risk management business. I've seen business owners paralyzed with fear after their lawyers have gotten them worked up. (Back in the 1960's, a lawyer talked my father-in-law out of going into a new business concept with his cousin. That new idea was

called McDonald's. Oops!)

Many accountants focus zealously on keeping overhead down. For example, they might urge you to take a location with lower rent because your breakeven will be less. But the idea is not to get your breakeven to be as low as possible; the idea is to have the best chance to reach breakeven. If you don't have a good location, you won't attract business and you won't hit breakeven no matter how low it is.

More people go out of business because of a poor location than from paying too much in rent. Signing a more expensive lease might put more dollars at risk but may mean a higher rate of success. Nobody says this is easy.

Show me a successful business person and I will show you someone that has a healthy skepticism. Show me a successful business person and I will show you someone who is constantly trying new things and who, sometimes, makes a mistake. Show me a successful person and I will show you someone who is an optimist, not a pessimist; someone who is always looking for opportunities instead of complaining about things they have no control over (like the economy).

My company has grown through two or three recessions (I've lost track). This time, I've decided not to participate. If you get too wound up in the doom and gloom, you run the risk of making bad business decisions. (You'll stop advertising, stop giving raises, stop bringing in new products).

It's survival of the fittest. Damn the torpedoes! ■