



Allow Enough, Then Some

...and don't get caught out at the final reckoning

It doesn't matter whether the money is coming in or going out, the unexpected often has the last laugh. In business, complacency can herald the difference between profit and loss; or may even spell eventual disaster. On the home front, a sudden turn in fortune could end in bankruptcy.

To explain what I mean, I'm going to combine these two facets into one scenario – a brief episode in the life of a couple who were both working, but fancied having their own business. At that point, their jobs seemed secure. They had a mortgage, a car loan, plus a couple of personal ones; and their credit-cards were usually paid before they incurred interest. They had no children, so had only themselves to worry about.

The sudden idea was sparked by a local restaurant advertised for sale. Sitting prominently on a busy suburban thoroughfare, and with one of our couple then being employed as manager of a fast-food venue, success seemed assured. They had opportunity, presumably the expertise, and a definite wealth of enthusiasm. What they didn't have were sufficient funds. No problem – there was enough equity in the house to secure a second mortgage. However, following some canny thinking and advice from a friend who was an investment consultant, a re-financing deal was negotiated with the bank which rolled all their liabilities into a single package. In effect, at that point in time they were marginally better off than before because their monthly expenses were less, and they had a cash surplus. **At that point in time...**

The extra money was for the restaurant: the initial deposit and working capital. The bank had agreed to fund the balance of the purchase. It seemed they had everything covered. Pretty sure they hadn't gone into this blindfolded – before the purchase they had visited the restaurant on different days to see if it was as busy as the seller claimed – they also knew for a fact from personal experience the level of profit the catering industry was capable of.

The changeover was peculiar. Before the papers were signed, the original restaurateur and his staff were extremely pleasant and helpful; afterwards, though, they became surly and uncooperative. Maybe they were regretful of leaving? Whatever, it wasn't their business anymore, and the new owners were too excited to let human nature phase them.

The first few weeks were not as smooth as would have been hoped. Mike had quit the junk-food place to be the resident chef; Helen kept her job as a public servant so that extra money was still coming in; and after some intense searching, they unearthed most of the necessities that the former owner had omitted to tell them the whereabouts of – that is, with the exception of some that apparently had never existed at all. At a glance, the kitchen and food-preparation area had appeared clean, but closer inspection of in, under and behind proved it to be anything but – scrub-a-dub dub! Mike had already had some contacts with catering suppliers, so a supply of ingredients for his culinary creations was

assured; and Helen was in charge of hiring staff, a couple of whom had expressed a desire to stay on.

On opening night, soft music drifted harmoniously over a sea of tables bedecked with crisp white linen. While Mike hovered nervously in the kitchen, Helen was pen-twiddling on reception. The former employees had been complemented by a further two waitresses, and a handsome young Canadian back-packer was behind the bar. A disconcerting hour of nothingness later, two customers entered and the pre-planned routine clicked in. Helen escorted them to their table, took their order, summoned a waitress to organise drinks; and, after passing the docket to the chef, returned to reception. Twenty minutes later, two more prospective customers peered through the front door, opened it, glanced at each other, then walked away. At the end of this, the first evening, they had served eleven customers, hopefully well; and, factoring in staff wages and overheads, were out of pocket to the tune of \$150. Still, it was early days.

Over a disturbingly short period, equipment began to break down at the most inconvenient times. Repairs and replacements were expensive and chewed into the cash surplus. Staff was a major problem – they really needed more on the busy days to provide the level of service customers expected, but these occasions were unpredictable. Cutting back to reduce the financial deficit caused delays in every area; from taking orders, to serving meals; and customers were suffering an annoying wait to pay their bills. Reputation suffered, clientele dwindled, profits were non-existent, and suppliers who couldn't be paid on time refused to extend credit. The business had to be sold because it had become unviable.

This is just one example of over-optimism blurring the writing on the wall. It happens so frequently, and not just in business. Home and other loans taken out, and extravagant purchases made during the good times do come back to bite when circumstances take a turn for the worst. Families that assumed they would be comfortably off for the duration are suddenly faced with repossessions and bankruptcy; and, penniless though they may be, they are still accountable for any outstanding debts. No-one is immune: not private individuals, competent business people, and certainly not entrepreneurs. Perhaps caution is unlikely to make fortunes; but blind ignorance and over-confidence are very dangerous alternatives.

I hope my previous articles reflect that I prefer not to end on a negative note; but I know that a final message always carries the most weight; so I'm leaving it at this.

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