

False Positives

Why are so many commonsense business metrics so far from the mark?

Every industry has its own pet beliefs about what constitutes a sign of good business health. Unfortunately, not all of these commonsense diagnostics are reliable. Here are some misconceptions that I encounter most often in the remodeling industry.

■ **“We are booked out for six months.”** Many small- to medium-size remodeling businesses gauge how well they are doing based on their backlog of work. A deep backlog makes these business owners feel confident and secure, but I think these reactions are unjustified. Imagine for a moment the effect a backlog of orders has on the manufacturer of windows or faucets. If they couldn’t deliver their product for six months, it

would be disastrous and would drive away even their most loyal customers.

Every business ought to have a backlog, but it needs to be the right size. If it’s too small, you may find yourself scrambling for your next piece of business; if it’s too large, your customer base may disappear or change its character. More backlog is not necessarily better; “just enough” backlog is what you want to target.

■ **“Almost all of my business comes from personal referrals.”** Most people who have made a statement like this are extremely proud of the accomplishment. While I agree that every business benefits from personal referrals, there is another way to think about this. When all of your business comes from personal referrals, you are not really in control of your future. If the economy slows down or a specific market changes, you might have trouble generating new clients. If you rely too much on referrals, your marketing “muscles” will atrophy and will be too weak when you need to do some “heavy lifting.”

Referrals are good for business but can make for a roller-coaster ride when the economy changes course. Better in the long run is a generous mix of referrals (40%) and new business (60%).

■ **“Our sales are up by 30% over last year.”** I’m not going to pat you on the back for this one, either. Growing too fast is unhealthy. Like machines, for ideal performance our businesses are designed to run at an optimum speed. If you exceed those limits, it may affect efficiency and, ultimately, the life expectancy of your business.

You should have checks and balances in place to help ensure that the quality of your product and service doesn’t decline as your company grows. And your levels of investment and infrastructure should be in sync with both short- and long-term goals.

■ **“We just landed the largest contract ever!”** Everyone dreams of “landing the big one,” and when it happens, most remodelers assume that their days of struggling to get their business going are over. But whenever I get the chance to follow-up with a business owner 6 or 12 months after they’ve taken on a big job like this, I hear a different story. With few exceptions, their initial enthusiasm has been replaced with regret that they ever landed that big fish.

During one of my seminars, I routinely ask the audience about the ideal project size for their company. Typically, I get answers like, “It doesn’t matter,” or “The bigger the better.” At one seminar, Jim Strite, an old friend of mine and the owner of Strite Design + Remodel in Boise, Idaho, was in the audience and announced, “My ideal project size is \$72,500.” It didn’t take long for the message to sink in. Most of those in the audience believed that if they were successful with small projects, they should be successful with large ones, too. But Strite disagrees. He believes, as do I, that there is a sweet spot in business and, more importantly, that knowledge of what that sweet spot is should guide your business decisions.

At some point in our careers, most of us have made one of these statements or others like them. Far from harmless boasts, if taken seriously these misconceptions about business can lead to false hopes and fatal problems. As is true in other areas of your life, in business it is critical that your decisions and actions are guided by beliefs that are grounded in reality. —Mark Richardson is president of Case Design Remodel and Case Handyman Services; mrichardson@casedesign.com.

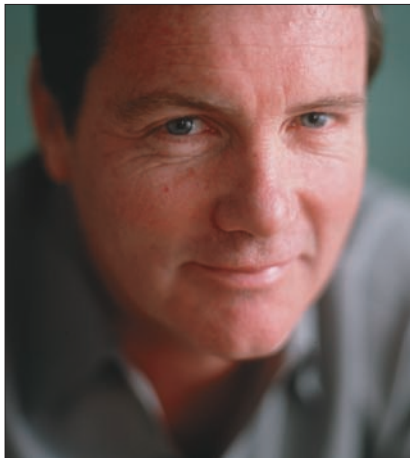


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