Complacency Kills Your Business. Here's How to Fight It.



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A booming business is something to celebrate. Despite dismal headlines related to the pandemic, rising inflation, shortages and pressure on supply chains, many businesses in the U.S. have not only persevered but found success. In fact, the majority of businesses are growing.

A survey by Guidant on 2022 small business trends found that 65.3% of businesses are currently profitable, and over 50% are focused on growing their locations and increasing staff. The same is true for their mid-sized and larger counterparts — 83% of mid-sized U.S. companies are showing optimism in business performance as well.

Reporting a healthy bottom line isn't always easy. After all, increased sales and a profitable business are the product of hard work, be it innovative marketing initiatives, solid financial strategies or restructuring – or in some cases, a stroke of good luck. These businesses should be applauded; however, it's important to avoid complacency.

O.G. Mandino II, author of the bestselling book "The Greatest Salesman in the World" once said, "I will not allow yesterday's success to lull me into today's complacency, for this is the great foundation of failure."

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Investopedia names complacency as one of the top six reasons a business fails, and a culture of complacency prevents leadership teams from predicting a downturn and other risks that can harm a business.

When a business is doing well, it's easy for owners and leadership teams to become complacent – and the proof is in the statistics. A Goldman Sachs survey shows 44% of small businesses have less than three months' worth of cash reserves to weather a downturn, and leading financial executives predict a downturn of six months or longer – but current preparations may not even be enough to navigate it and most fail to have the right financial strategies to weather it, according to a global survey by Coupa.

So, when business is booming, what should be done to avoid complacency and ensure a business is on solid footing?

1. Ensure sustainable growth

While growth is fantastic, uncontrolled growth can leave a business on shaky ground. Take LuLaRoe for instance. Shrouded in scandal, the downfall of multi-level marketing fashion

company LuLaRoe (that is now featured in a docuseries) was being a victim of its own success. As the company struggled to keep up with demand, the quality diminished, shipping issues arose and the lack of training among the sales force created a decline in sales. Too often, leaders' focus on growth is short-sighted instead of being focused on sustaining it for the long term.

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2. Maintain cash reserves

A business with cash reserves is more likely to survive a downturn and it's recommended that companies have at least three to six months' worth to persevere through downturns. To accomplish this, it's essential to create and adhere to budgets, set monthly targets and monitor cash flow while eliminating unnecessary expenditures.

3. Reinvest in your business

There's the old mantra, "You have to spend money to make money." Reinvesting profit into improvements that can enhance the business or generate broader awareness provides a revenue-generating opportunity. Business improvements include staff training and education, investments in improved software or technology or, for brick-and-mortar locations, a remodel or improved fixtures and lighting.

Businesses can also choose to reinvest profit to fuel growth through a marketing initiative that incorporates tactics like social media or Google advertising that garners leads and sales. According to a CMO Survey, businesses are poised to up their digital marketing spend in 2022 to remain competitive.

4. Control costs and debt

When business is good it provides a chance to pay down debt which reduces the ratio of debt to equity and leads to a more valuable business. It also increases the business's credit rating. And the reduction in interest saves money. While debt isn't always bad and can be used as financial leverage, mounting debt and high interest rates are a hindrance.

5. Pursue vertical integration

Through vertical integration, the company can own the supply chain for its products. This provides better control and lower prices which enables the company to boost future profits. Recently, as supply chains are under pressure and in a vicarious position, vertical integration is making a comeback among many businesses like General Motors, Tesla and Amazon. Vertical integration comes at a price though. It can require large capital expenditure to pursue and there's often a steep learning curve when scaling the business into a new industry.

6. Mitigate risk and have a continuity plan

When business is good, it's the ideal time to take a step back and conduct a risk assessment to prevent the unexpected from eating into that hard-earned profit. Few businesses are prepared for crises that can derail a business. According to a study by Mercer, just 51% of businesses have a continuity plan that provides protocols for when disaster strikes. It's also an ideal time to review insurance policies and pinpoint any gaps or exclusions that could prevent a critical claim from being paid.

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7. Consider a captive insurance company

One way to accomplish vertical integration while also managing risk and accumulating cash reserves is by owning a captive insurance company. Captives can write broad coverage for losses, including policies with few policy exclusions. Captives can also insure gaps in commercial policies.

In terms of risk, this ensures a business can be protected against likely threats with more assurance the claim will be paid. Since the captive is owned by the business or business owner, premiums paid minus claims are retained as profit. Thus, a captive allows a business to vertically integrate by owning its own insurance company. By accumulating profit and providing better protection, a captive insurance company allows a business to be prepared to survive crises and disasters.

While experiencing success, take some time to celebrate. Reward your team, pop open that bottle of champagne and thank your customers or clients – but don’t fall prey to complacency. History has shown us that business is cyclical and it’s critical to use the good times to prepare for the unexpected downturn.

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