

Seven Ways To Stupidly Lose Profits By Trusting Others

We all rely on each other every day. Otherwise, we wouldn't have water, lights, heat, and air conditioning. That trust can be harmful, however, if we trust those who may have strong interests to do other than serve our interests.

- 1) Beware of the assumed rules that may have governed organizational practices in an industry for many years. In the software business, it has been common practice to provide advance notice of new standards and software to all those who want advance notice. (One reason for this practice may be Metcalfe's Law, which says that the more people who use something, the more valuable it is to everyone . . . think about the Internet as an example.) In the antitrust lawsuit brought by the Justice Department against Microsoft in 1998 was an allegation that Microsoft had not followed that advance assistance practice with Netscape with regard to one of the new versions of Windows. The allegation was that Microsoft was trying to use this information as a bargaining chip to get large advantages from Netscape. Whatever the truth of the matter, Netscape, seemingly quite surprised that Microsoft hadn't followed the "rule," clearly felt that it had suffered significant economic harm because it was provided delayed access to the new Microsoft standard.
- 2) Buying long-term contracts usually gives the seller an incentive to find new ways to not deliver or to charge you more. An investment newsletter offered me a lifetime subscription with no additional charges. Calculating that this was a good value on a discounted cash flow basis, I bought. Within two years, I was told I would no longer receive my subscription unless I paid an annual "service fee" of \$25. To test their honesty, I didn't pay for awhile. Sure enough, they didn't send my "lifetime" subscription. It was the most expensive two-year subscription I ever bought.
- 3) Don't believe promises employees make to you that require you to deliver on what they want first before you derive the benefit they promise. A group of my employees loved to describe how important great benefits are to their loyalty. I once added an expensive benefit because a group of employees said they would work longer and more devotedly if I would buy the benefit. I agreed because I needed extra help, and all employees who asked for the benefit left for other jobs within a year having worked no harder than they did before. It took me many years to get out from under that benefit that no one else really cared about.
- 4) Don't believe promises that customers make unless they have an incentive to keep their promises. A client of mine wanted our firm to put in a large amount of work to explore a possible acquisition for him. I sent a contract which he signed which included contingent payments, with a minimum. Later, when I tried to collect on the minimum fee with a nice letter, he sued me instead. I had trusted him to keep his word. I should have required the minimum payment be made before I did the work.
- 5) Don't agree to automatic renewals. I found this out the hard way when I wanted to stop the automatic renewals. I couldn't find any way to terminate. I had bought a lifetime contract without meaning to do so.
- 6) Don't pay suppliers in advance. One year I wanted to reward my best suppliers by paying them in advance. I sent them a letter explaining this point. They thanked me. Later I wanted to draw on some of these credits and found that the suppliers had "spent" the money "on my behalf" on activities I hadn't approved. They wouldn't reverse the charges. I stopped using those suppliers and stopped paying in advance.
- 7) Don't enter into contracts with those who might go bankrupt or be bought out. I stupidly bought a membership in TWA's Ambassador Club. Before the end of my membership, the company was in financial trouble and had to be bought out by American Airlines. The new company wouldn't give me credit towards more than one year of their Admiral's Club. I was the loser.

About the Author

Donald Mitchell is an author of seven books including *Adventures of an Optimist*, *The 2,000 Percent Squared Solution*, *The 2,000 Percent Solution*, *The 2,000 Percent Solution Workbook*, *The Irresistible Growth Enterprise*, and *The Ultimate Competitive Advantage*. Read about creating [breakthroughs through 2,000 percent solutions and receive tips by e-mail](http://www.2000percentsolution.com) by registering for free at <http://www.2000percentsolution.com> .

Source: <http://www.candlebusinesscorner.com/articles>