



**TILMAN FERTITTA**

**SHUT  
UP  
AND  
LISTEN!**

**HARD BUSINESS TRUTHS  
THAT WILL HELP YOU SUCCEED**

# **PRAISE FOR *SHUT UP AND LISTEN!***

“Tilman’s message isn’t just for people in business. His approach to leadership, service, and knowing your strengths and weaknesses can be used by the most junior cadet or the most senior officer.”

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“I’ve seen Tilman’s unique business strategies in action many times. All through the book he breaks them down in ways that are not only easy to understand, but can be used in any type of business.”

—Brian Sullivan, CNBC anchor

**SHUT  
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LISTEN!**

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# SHUT UP AND LISTEN!

HARD BUSINESS TRUTHS  
THAT WILL HELP YOU SUCCEED

TILMAN FERTITTA



HARPERCOLLINS  
LEADERSHIP

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# FOREWORD

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Over the course of more than four decades, I have spent my career covering the greatest athletes and winners the world has ever seen, interviewing legends Muhammad Ali, Tom Brady, Michael Jordan, and Michael Phelps. The dedication, devotion, hard work, integrity, intellect, imagination, commitment to excellence, and heart have made them global icons.

The same principles apply in business. So I think I have an idea why you're reading this book. It's because you want to learn from an incredible winner in business.

Tilman Fertitta has risen to the top of the mountain and is one of the biggest winners in business history.

If you're a business professional, you may know Tilman as owner of Landry's Inc. and the many hotels, restaurants, and casinos they own and operate, or from his CNBC show, *Billion Dollar Buyer*. If you're a sports fan, you may know him as owner of the Houston Rockets, or for serving as chairman of the Board

## FOREWORD

of Regents at the University of Houston, where he has helped build the institution and athletic program to prominence.

If you know Tilman personally, as I do, you know that he oversees his various businesses with a passion and energy that is just as strong today as it was when he opened his first restaurant over thirty-five years ago. Even with all of his success, his drive is like he just arrived at his first day on the job. There is no room for complacency working with Tilman, and no detail too small when it comes to the experience he provides to his customers. There is no question that Tilman knows what it takes to start and manage a successful business. He knows how to motivate those who work with him, and he leads by example. He instills confidence, and empowers people, to get the best out of them. He trusts himself, so he is able to trust those around him. In fact, there are very few people you could turn to who know what it takes to succeed in business more than Tilman.

In *Shut Up and Listen!*, Tilman shares his secrets and strategies that have made him so successful and does so in his blunt, humorous style that readers will love. He uncovers common blind spots that can trip up entrepreneurs, and offers proven strategies that will help them grow. I don't know many people who can say, as Tilman does in the introduction—"You may think you know what you're doing, but I'm going to show you what you don't know"—and be right.

I highly recommend *Shut Up and Listen!* The wisdom and actionable insights Tilman offers in this groundbreaking new book are a potent combination that business owners of all types will value long after their first read. It's a lifetime of business

lessons presented by a man who is willing to share a map of how you can navigate in business, and join him on the victory platform.

Jim Gray

Hall of Fame, Emmy Award-  
winning sports journalist,  
reporter, and producer

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# ACKNOWLEDGMENTS

I could not have written this book without the support of my entire family. My parents, Vic and Joy, and Paige, Michael, Patrick, Blayne, and Blake, and my brothers Jay and Todd, have heard every “Tilmanism” in this book and more.

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Lastly, without the dedication of all of my Landry’s, Golden Nugget, and Rockets employees, I would not have built my

## ACKNOWLEDGMENTS

organization to what it is today, and there would not be a book to write. I often brag about how fortunate I am to have kept so many long-tenured employees. I take their dedication as the ultimate compliment. I particularly want to acknowledge the following executives, all of whom have been with me for approximately twenty years:

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There is not enough space on the page to list the hundreds of other employees who have been with me so many years, but to all of you who were not listed on this page, thank you as well for your dedication.

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# INTRODUCTION

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If you are in business, want to start a business, or perhaps want to climb the corporate ladder, you've come to the right place. Now, shut up and listen to make that business all that it can possibly be.

I'm Tilman Fertitta. According to the Forbes 400 list, I'm ranked the 153rd richest person in America. As the sole owner and founder of Fertitta Entertainment, my organization owns and operates restaurants, hotels, amusement parks, and aquariums. You may be familiar with some of my restaurant brands, including Mastro's, Morton's The Steakhouse, Rainforest Café, Chart House, Bubba Gump Shrimp Co., Landry's Seafood House, Saltgrass Steak House, and thirty-five other concepts. In all, I own more than six hundred restaurants. I also own five Golden Nugget casinos and hotels. If that wasn't enough, I've also starred in my own reality show called *Billion Dollar Buyer* on CNBC.



Oh, by the way, if you didn't know, I also own the NBA's Houston Rockets.

That's a long way from starting with a single restaurant in Katy, Texas. And in this book, I want to share some of the key ideas and strategies I used to build an entertainment and hospitality empire that covers the globe.

To do that, I'd like to begin with a warning:

Be just like me: never, ever stop worrying about your business.

Why?

Because when it comes to business and most everything else in life, there is a paddle for everybody's ass.

And you never know when it's coming or where it's coming from.

I really do believe that. I don't care if things are going well for you, that you think you know it all. Put this one thing in your head: there is a paddle coming for your ass right now.

By a paddle, I mean that there is always a force out there, something that's taking square aim at your business's success and growth. There might be someone with a better product. There might be a lawsuit waiting to pounce. The economy may turn. A bank that you relied on may deny you credit. New government regulations may be ready to take effect. Your computer may be hacked. These days, it's not ridiculous to worry about a terrorist attack, international or domestic.

The best you can hope for when something damaging or disruptive happens is that you act quickly to minimize the impact. But you have to open your eyes. You need to start worrying, anticipating, planning, and being proactive. Why? Because the

paddle comes from the blind spots we all have when we juggle the many roles and skill sets needed to successfully run a business.

It is way too easy for complacency and overconfidence to set in, which leads to ignoring crucial details.

---

“You might think you know what you’re doing, but  
I’m going to show you what you don’t know.”

---

People ask me all the time: “What do you fear?” I say I don’t fear anything, but I *worry* about everything. That’s one of the significant features of the message I try to get across when I speak to business leaders, students, my employees, and entrepreneurs on my television show *Billion Dollar Buyer*. I have to tell entrepreneurs that, even as they pitch some very appealing products to me, there is some area where they are falling short that is hurting their business.

So, as the title of this book says, the next step is a simple one: Shut up and listen.

I’ve got a lot I’d like to share with you. And you’ll be glad that you paid attention.

The book is divided into five sections, each of which talks about a core area that can kill a business if you’re not aware of those blind spots. Here they are, in order:

1. Hospitality (“If They Want Scrambled Eggs . . .”)
2. You’d Better Know Your Numbers

3. The 95:5 Rule: What's Your "Five"?
4. See the Opportunity, Seize the Opportunity
5. Live Your Leadership

Each section provides specific strategies and ideas to help your business break through to that next level. And if I want to emphasize something, it appears in a "Listen!" sidebar.

When it comes to business, it's absolutely critical to always remain realistic—about your product, your competition, and yourself. Be cognizant of everything you do and every decision you consider. This book will help you better analyze your strengths and weaknesses and understand what actions you should take. Be honest with yourself about all that you don't know—and what you can do about it. (As I like to say, I'm not about to go on the court and teach NBA MVP James Harden how to shoot a jump shot!)

I'll share some of the most straightforward strategies and ideas I've used in my own businesses and that you can use as well. These strategies will help you achieve the sort of breakout success that you want, no matter if you're just starting your business career or you're years into it.

Each chapter wraps up with what I call "Tilman's Targets"—a quick, easy-to-reference summary of major points that were covered in the chapter. They're a handy way to refer back to key concepts.

At the end of the book, I've included bonus content with a feature called "The Tilman I Know." You'll hear from several friends of mine who have their own thoughts about who I am and some of the things I've done to achieve success.

This isn't a textbook. These are the strategies I've used—in both good times and bad. As I'll discuss later, I've been through more than my share of days when it seemed like the whole world was falling apart. Having these ideas in mind helped keep me from throwing in the towel when it would have been the easiest thing in the world to do.

The fundamental concepts I'm sharing helped me succeed. In business there are no Oscars, Grammys, or Pro Bowl, but there is the Forbes 400 list, and I'm on it. I believe my ideas and strategies can help you achieve success no matter what sort of business you happen to be in. If you want to make money in business, you need to read this book.

Despite all my success, I walk around every day making sure that the paddle doesn't get my ass. I can take a few taps, but I don't want a big swat.

Neither do you.

So, saying this in the nicest way possible: "Shut up and listen!"

Let's get started.

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# SECTION 1

## HOSPITALITY ("IF THEY WANT SCRAMBLED EGGS . . .")

**E**very successful business, in one way or another, is built around hospitality.

The problem is, many businesses fail to see that. And if they do, they don't pay nearly as much attention to it as they should.

Hospitality can mean everything to the success or failure of your business. In this section, I'll discuss what hospitality involves, why it means so much to your business, and how to overcome obstacles that can get in the way of providing hospitality—consistently and without exception.

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## CHAPTER 1

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# HOSPITALITY MATTERS, NO MATTER THE BUSINESS

**W**e've all been there. And it's the kind of experience that drives us all absolutely crazy.

Probably because it happens. A lot.

It's 11:02 a.m. Maybe you've been in an important meeting or just arrived from the airport, but you walk into a restaurant, and you want some scrambled eggs.

Here's what you might hear. Take your pick:

"Sorry, we stopped serving breakfast at eleven."

"We serve eggs only at breakfast."



## SHUT UP AND LISTEN!

“The kitchen is shifting over to lunch.”

“Sir, if you’d only been able to get here fifteen minutes sooner . . .”

No matter how it comes out of someone’s mouth, the basic answer is the same:

Can’t help you.

As I said, everybody has had to deal with this. And, as I also said, it can drive you crazy. You’re not asking the kitchen to make you a waffle, pancakes, or even eggs Benedict. You’re not asking them for an order of bacon (although they probably have some sitting over on a counter that they can heat up in a few minutes and toss into a club sandwich).

All you’re asking for is someone in the kitchen to pick up a skillet, put it on the burner, and cook up a couple of scrambled eggs. But the server treats you as if you were trying to place an order for Peking duck—from scratch, prepared by a chef flown in nonstop from Beijing.

Maybe you try to argue with the staff about throwing a couple of eggs into a pan. Maybe you shrug and ask to see the lunch menu.

Or maybe you walk out and try to find someplace else to eat.

That’s because something like this should never, ever happen.

But it does happen, all the time—and in different ways. You may telephone a hardware store with an important question, only to hear that everyone’s busy. “Can you call back?”

Or maybe you’re in a department store and ask if they have a particular wallet in stock. “No.” Not a suggestion that they’d be happy to show you some similar items—just no.

Can the doctor take a few minutes to talk about your lab results? “Make an appointment.”

For me, these are all a question of hospitality. And customer service and hospitality are everything, no matter what the business is.

To me, the definition of hospitality is simple. It’s however you handle a customer. Nothing more, nothing less—how you treat him or her, how you respond to what he or she asks for, and your ability (and willingness) to stay flexible. The ultimate goal of interacting with a customer is to make him or her feel like the only customer you have in the entire world. Why? Because as I tell my own employees, there are no spare customers.

### **LISTEN!**

It starts with how you talk with them. And you don’t need to memorize any special words or magic sentences. The rule is simple: when talking to a customer, be sure to make the conversation all about them. Let them talk about their needs, what they hope to get out of buying your product or service. If they want to complain, listen. They want to be heard more than anything. Since you’re trying to make them feel like they’re the only customer you have, act like it. When dealing with that one customer, no one or nothing else matters at that moment.

If you want to boil it down even further, I have a rule of thumb that I say almost every day: it’s free to be nice.

## SHUT UP AND LISTEN!

Think about that. As a business owner or entrepreneur, does it cost you anything to be courteous to each and every customer? Of course not! Being nice costs you nothing. But, by the same token, remember: it can cost you a hell of a lot to be rude.

Sometimes it's not the easiest thing in the world to be nice, no matter how much sense it may make from a business standpoint. Maybe your spouse or significant other said something that upset you right before you left for work. Maybe something else is going on in your life that makes it awfully difficult to be nice and cheery with each and every customer you deal with.

---

"Be plappy."

---

To which I have a simple answer: be plappy.

By that I mean "play happy." No matter how upset or worried you may be about other things in your life at the moment, do everything within your power to project a happy mood when you're on the job.

That's an ever-present rule of thumb at all of my businesses. When you step foot inside one of my businesses and you work for me, be plappy if you have to. One reason is that, as I said earlier, no one cares that your dog chewed up a \$300 pair of shoes or that you have to meet with your kid's principal after work. That's reality.

The other reason that rule always stays in place in my businesses is that the customer experience is all that matters. We're

in the hospitality business, so we have to be sure to be hospitable all the time.

And no matter the specifics of what you do, you're in the hospitality business as well.

Follow-through is another aspect of hospitality. For example, if you say you're going to deliver the product on the thirteenth at three o'clock, deliver it exactly at that time. Don't call minutes before it is due and say it's going to be three days later than you had planned. Even worse, don't call after the product was due to be delivered and say it's going to be even later. (Your customer already knows that, by the way.)

Just as important, don't offer up an excuse to explain the delay. Nobody cares that your driver's kid got sick and he had to pick him up early from school. Not to sound mean or heartless, but somebody who orders something from you doesn't care that your mother-in-law died.

I'm sorry your child got sick. My condolences for your mother-in-law's passing. But if I'm a customer who was told that a product I ordered would arrive on such and such a date and at such and such a time, all I'm focused on is the fact that something I was expecting—maybe something very important to me—isn't going to arrive as planned.

We all have kids who get sick. Relatives and loved ones pass away. Personal problems crop up daily. You know that, and so do I. But a promise to a customer should be treated as something that shouldn't be affected by the sorts of problems and unexpected events we all deal with constantly. Business would be a whole lot easier if life never got in the way, but it does.

## SHUT UP AND LISTEN!

There's a simple way to address this problem. Try building in a few what-ifs. When you make a promise to a customer, take into account that something may go wrong or get in the way of keeping your commitment. Assume a worst-case scenario. Tack on a few extra hours or even days to give yourself a little cushion.

One way I do this is by being very careful about how I schedule my time. I generally avoid making commitments too far in advance. For me, I never build a schedule that's longer than a couple of weeks or a month out. That way, if something comes up during that time frame, I've given myself enough time to find a work-around. You're focused but also flexible.

That sets you up for a win-win. Either you deliver the product as planned or, even better, you call your customer and say the product came in earlier than expected.

If you offer a due date that the customer feels is too far away, now is the time to explain why it has to be that way. It's not an excuse; it's an explanation. And from the customer's standpoint, an explanation of why something is going to take as long as it will to arrive is easier to accept than some sort of excuse later regarding its slow delivery. When you make an excuse, you're basically asking a customer for forgiveness because you didn't deliver as promised.

The overall goal is to make certain a customer feels special. And a customer who feels special will bring you more business and tell all of her friends how much she loves your service.

Of course, there will be times when things don't go as planned. Maybe a delivery is going to be late, or something

on the menu isn't to your customer's complete satisfaction. It's critical to make that misstep up to the customer in some way.

In our businesses, we have lots of things at our disposal. For instance, if five people are eating dinner at a table, and one diner gets his meal ten minutes after the others, we'll likely comp that meal. If someone stays at one of our hotels or resorts and has a negative experience, we may offer them a free night's stay so that we can show them how we do things right.

But it's also a balancing act. If someone spends fifty dollars and is unhappy, we're certainly not going to give her something worth \$300 to make it up to her. Not only is that completely out of balance, but it's an exaggerated apology. While you want to right the wrong, you may inadvertently be making something out to be a bigger deal than it actually is.

It circles back to making certain the customer knows you're listening. Ask questions and react accordingly. And resolve the problem as quickly as possible, so it doesn't turn into a monster.

Keep in mind also that there will be times when a dissatisfied customer is being unreasonable. There are people who will sit down at a restaurant, eat an entire steak, and then complain that it was overcooked.

First, be nice and respectful, no matter what you may be thinking about that particular customer. Then, remind the customer that he, in fact, did polish off the entire steak. Had he said something earlier, you could have done something, possibly replacing the steak with another meal. But since he did eat the whole thing, the only logical thing for you to conclude was that the steak was perfectly fine. In a nutshell, maintain a balanced,

## SHUT UP AND LISTEN!

polite demeanor while you're explaining that there's nothing else you can do.

Is that telling a customer no? In a way, it is. In this instance, it's the honest response and the only one that makes business sense.

---

"Build a few hours or days into your schedule for the what-ifs. If I tell somebody I'm going to deliver something on this day, I'm damn well going to deliver it. I'm going to make that customer feel special."

---

Speaking of business sense, let's apply a what-if to the scrambled eggs story that opened this chapter. The best what-if would be a kitchen that sets aside a few eggs and other breakfast items to accommodate late arrivals. What if the kitchen has some quiches all made and ready to stand in for scrambled eggs?

Or, even more simply, what if the server took your order, and the kitchen staff tossed a couple of eggs into a pan and made a couple slices of toast? They may very well charge you twenty-five dollars for an eggs and toast breakfast, but that's what you wanted. (Remember, there's a big segment of the population that would say I don't give a crap how much it costs—I just want scrambled eggs!)

More to the point, by building in a what-if strategy, or by being flexible, you've made a customer feel special. And that's the overriding goal of hospitality.

But don't lose sight of the fact that you're a businessperson.

Bust your rear to make certain that a customer never hears no, but that every action makes business sense as well. You're in business to make money. A customer wants scrambled eggs. Make them for him but charge for the additional effort. If they want scrambled eggs at 8:00 p.m., charge for them. If a customer wants expedited delivery or something installed at their home, be smart. Know what your costs are and charge them accordingly. Not only will you have a happy customer, you're also taking care of yourself as a businessperson.

This raises an important point. Nobody's product is that great. Nobody's product is so amazing that it stands out completely from everything else. You may have a perfectly good product, but you're competing against a bunch of other perfectly good products. That's the reality of business.

How you can separate yourself from the competition is through hospitality—attention to customer needs and wants, 24/7. Think about the same two products—one is delivered on time as promised, and one arrives one day late. You tell me what that customer is going to remember.

Hospitality is essential to all sorts of businesses. I don't care if you're a doctor—you should be a hospitable doctor and have a great bedside manner. If you think about it, every doctor around can give you the exact same flu shot. The one who helps you relax, so the shot doesn't hurt like hell, is the one you're going to go back to.

I was talking with someone not long ago who sees a therapist regularly. The appointment is always over at three o'clock sharp. Out the door she goes. Almost anybody who sees a therapist can



## SHUT UP AND LISTEN!

relate to that sort of rigid schedule. Feeling better? Good. Please pay at the next available window. Next patient! Keep it moving!

What would happen if that therapist built in a little extra time for each session that the patient could use if he or she wanted to? One time they might go over by seven minutes, another by three minutes. What would happen if a masseuse you book for an hour's massage actually spent sixty minutes with you, rather than showing you the door after fifty minutes, after starting five minutes late?

The point isn't so much that the therapy is any more effective—although it might be—but that the patient feels as though the therapist really cares. She doesn't feel as though she's being thrown out of the office at exactly the same time. She truly feels like she matters, that her therapist is ready to give her extra attention if she feels she needs it.

That's hospitality—a patient who doesn't feel like just another name on a chart.

### LISTEN!

Hospitality not only applies to every business—it also applies across every part of that business. Everyone working for a business, no matter what they do, should practice hospitality with the same level of commitment as everybody else.

Here's how that can play out. You go out to dinner, and you're promptly escorted to your table. You're waited on by a courteous

and helpful server. The food is outstanding, as is the dessert that follows. You leave as a thoroughly happy customer.

But it all falls apart when you try to get your car. Maybe the valet misplaces your keys. Maybe it takes the valet sixteen minutes to find where he parked your car. Maybe when the valet drives up with your car, you notice a scratch on the driver's side door that wasn't there when you dropped it off.

All of a sudden, the memory of that great experience you had at the restaurant is completely gone. After a great meal and great service, you drive home pissed off because of the service the valet offered.

But is that great experience really gone? Maybe not. The issue isn't necessarily limited to the valet's mistake. The issue is, did your general manager talk to the valet? Did the valet bring it to the restaurant's attention? And then what did the restaurant do to help alleviate the situation? Did they ask the customer to sit down and talk, to address what happened and, just as important, to ask what can be done to make him or her feel better about their experience?

Problems are inevitable. What matters is what you can do to make that customer happy again or, at the very least, mitigate the bad experience. Put another way, sometimes you can't avoid the fire. It's how you put it out that matters.

The same can happen in any business. A patient leaving a therapist's office after the doctor gave him or her a few extra minutes can be turned off by a moody receptionist.

That's all part of being in the hospitality business. It involves everyone and depends on everyone. It's called taking care of your

## SHUT UP AND LISTEN!

customer. And, if even one person forgets that, an otherwise great customer experience can go straight down the drain. So be ready to respond when that happens. And believe me, it will happen.

Sometimes, a lapse in hospitality occurs by a matter of choice—the most unforgivable mistake, in my estimation.

Here's what I mean. I was staying at a five-star hotel in Chicago a while ago. At the end of a very long day, some associates and I went down to the bar to unwind and have a drink. As we were relaxing and enjoying our drinks, the bartender came up to us and asked us to leave.

Why? Because the cleaning crew wanted to get started cleaning the bar!

I have a saying that bartenders love to run your bars, but this went way beyond anything I could have ever imagined. Can you imagine going to a five-star hotel and having some drinks and then being asked to clear out because the cleaning crew wanted to start vacuuming? Is that being hospitable? On a more practical level, was that the only space that needed cleaning? Could they have gone somewhere else while we finished our drinks at our own pace?

This example highlights the importance of telling everyone with whom you work that hospitality comes before everything else. Make hospitality the forefront of everything your business does, from making certain that deliveries arrive as promised to feeding a hungry customer just what he wants, no matter the hour. And, in the case of my cocktail at the Chicago hotel, hospitality means doing things at the customer's convenience, not your own.

Take hospitality personally. When I'm in one of my restaurants, and I see someone get a drink without a napkin, or food that's not hot or that's on the wrong plate, it bothers me to my core. I truly look at it as a reflection and a representation of myself.

And, if you go into one of my restaurants at eight o'clock at night, there are going to be scrambled eggs there if you want them. I may charge you more, but you're a happy customer who got what you asked for.

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### **TILMAN'S TARGETS**

- Make hospitality your goal, no matter what business you're in.
- Hospitality means making a customer feel special.
- Keep your promises. Build in what-ifs to help you follow through on your commitments.
- Make hospitality the goal for everyone involved in your business. One person who doesn't show hospitality can ruin an otherwise positive customer experience.

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## CHAPTER 2

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# TAKE THE WORD “NO” OUT OF YOUR DAMN VOCABULARY

**F**or years, I've had a question stuck in my head. And no matter how hard I try, I can never come up with a good answer:

Why is it so easy to say no when you can say yes to a customer?

That's a simple question but, as I said, I've never come across what I would consider a fair answer.

In the world of business, particularly for entrepreneurs and businesses just starting out, it would seem to be such an easy question to answer. A customer asks for something, and you say, “Yes, no problem.” End of story.

But in many ways, businesses say no to customers all the time. And it's one hell of a mistake.

It can be as simple as saying you can't make a customer

## SHUT UP AND LISTEN!

scrambled eggs after 11:00 a.m., like the example in the previous chapter. With my experience in the hotel business, it can be as simple as telling a customer he can't have his suit cleaned and back to him by the next morning, since he missed the deadline by thirty minutes.

Sometimes saying no to a customer has a higher price than pissing off someone who would be happy if you just said yes. Say a customer asks to substitute shrimp for oysters. I know for a fact they cost you the same. Charge a substitution fee, but don't tell them no.

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"Why is it so easy to say no when you can say yes?"

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I really can't say why this sort of thing happens—a casual attitude toward work maybe, or a sense that customers tolerate more these days—but there's an easy solution to all this: take the word *no* out of your damn vocabulary.

I preach that all the time. Never, ever say no to a customer. And there are plenty of reasons never to say no beyond the obvious one that you might alienate an otherwise happy customer.

### LISTEN!

If you think about it, saying no to a customer usually doesn't mean that you can't do something. Instead, you're choosing not to do something.

That’s a big difference. Obviously, in some situations you can’t do something. Say your business is scheduled to make a delivery to a retailer, but a major storm is flooding roads everywhere. In that instance, telling your customer you’re going to be late is understandable. No one can control the weather.

And, in some cases, what a customer asks for can be completely unreasonable. In all fairness, not every customer is going to ask for something that’s realistic, like the customer who asks for a refund after devouring an entire steak. When that happens, saying yes can be hard to do.

But in far many more instances, saying no translates to someone saying they choose not to do what the customer asks.

Let’s go back to the scrambled eggs example from chapter 1. A customer wants scrambled eggs, but it’s way past breakfast time. The server says they can’t make scrambled eggs.

Wait a minute. Is the kitchen out of eggs? Are all the skillets dirty? Have the chickens gone on strike?

Of course not. Everything’s there to make a perfectly good plate of scrambled eggs. Yet the restaurant is choosing to say no to a customer.

Believe it or not, I think customers pick up on this much more than you might imagine. They know full well that when someone says, “I can’t,” it really means “I won’t.” Think about that. How would you feel if a business told you no, pretty much because they didn’t feel like doing it, not because it was beyond their ability to agree to what you asked for?

That’s a bad situation to put yourself in. First off, customers who hear no are made to feel as though they’re expendable,



## SHUT UP AND LISTEN!

that their business doesn't matter. I like to say there are no spare customers, and saying no to one is a certain way to make them feel unimportant, fast. Don't put yourself in a position to tell your customer no. If you run out of ice cream, hamburger buns, tomatoes, whatever, go to the damn grocery store and get some. You can tell your customer you're out of Wagyu beef, but not something you can get at a grocery store down the street.

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"There are no spare customers."

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I also like to say it's essential to treat every customer like he or she is the only one you have. But saying no to someone can make him or her feel like a number, just another item on the list. With just one word—no—you can be telling that customer, "I'm saying no to you because you really don't matter."

It's also important to bear in mind that when you wipe the word *no* out of your customer vocabulary, that doesn't necessarily mean you have to say an outright yes. Offer alternatives, a sort of "I can't do that for you, sir, but I can do this." If a customer likes your product in a particular color that you don't happen to have, suggest a color close to it. If your restaurant is out of a menu item that a customer orders, offer her a discount to come back the next night, when she can get the food she wants. You're not telling them no—instead, it's a qualified yes.

In short, say what you *can* do, not what you can't.

That’s an important message to get across. Even if you can’t meet the customer’s exact request, you’re showing a willingness to do something else to keep him or her happy. Again, it’s a matter of choice—you’re choosing to take those extra steps to make someone feel special and valued.

Taking the word *no* out of your vocabulary also encourages you and anyone else with whom you work to think on your feet. In many ways, saying no is the easy way out of a situation. But if you refuse to say no, you often have to come up with some alternatives quickly. That can build a business that’s responsive and flexible in all sorts of ways. (Later, I discuss the importance of thinking on your feet.)

All this may seem very simple, and it is. But you’d be shocked at how many businesses with great products and services inadvertently shoot themselves in the foot by telling customers no in all sorts of ways. However, if you’re aware of it and make a consistent, conscious effort to never tell a customer no, you’re going to see results.

You don’t always need to say yes to a customer. But never saying no may be one of the most valuable strategies you can use to help your business break out to the next level.

### TILMAN’S TARGETS

- Never tell a customer no.
- There are no spare customers.
- Understand the difference between being unable to

## SHUT UP AND LISTEN!

do something for a customer and choosing not to do something.

- If you can't say yes, offer alternatives.
- Never saying no encourages you and everyone involved in your business to think on their feet.

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## CHAPTER 3

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# CATER TO THE MASSES, NOT THE CLASSES

**O**ne of the biggest obstacles an entrepreneur can face is believing that his or her product is the only one like it anywhere in the world. As I've said before, that's completely unrealistic.

But that reality can also raise an issue that's a problem for any business looking to grow—a product that's too narrow to attract wide interest.

If you want your business to break out to the next level, cater to the masses, not the classes. The math behind that is simple. The broader the appeal of the products or services you sell, the more customers you will have. And that starts by doing what the customer dictates you should do.

A lot of people run their businesses according to how they

## SHUT UP AND LISTEN!

think it should be done. They base their products, services, and much of the customer experience on what they like—be it food, service, or some other element. The problem is that you can't do what you like. Granted, you may have a great idea or product you absolutely love, but whether you love it or not is largely beside the point. You may like liver, but can you build a restaurant chain around liver? Not likely. To build your business, you want to do what the masses like.

Pay close attention to the feedback you receive. Your customers will be telling you what they do and don't like, in so many words. And by listening to what they have to say, you're not consciously limiting your potential customer base. Instead, you're working toward making it as large as possible.

First is the obvious question of price. Is your product or service priced to be within reach of the greatest number of people possible, while still giving you a sufficient margin? If your product is priced too high, you may be losing customers who otherwise might be attracted to what you have to offer them. That's an unnecessarily small target.

There are all sorts of ways to identify a solid price point. Start with knowing who your competitors are. It may be surprising to learn, but many entrepreneurs don't clearly understand who their actual competitors are. For instance, someone who's offering a different product or service can be as challenging a competitor as someone doing the exact same thing as you. When looking at potential competitors, watch for products and services that someone may buy instead of yours, identical and otherwise. When talking with customers, take a minute to ask where else

they've looked. Ignoring or overlooking a key competitor can be devastating.

Next, see what your competitors are selling and at what price. There are plenty of resources available regarding industry standards that you can refer to. Use them as a guide but not as gospel. By knowing your numbers—such as production costs, labor, and others—you'll begin to see what, if any, adjustments to those prices you should make to help your business become both more profitable and accessible to the most customers.

This is as common a problem as I've seen in all sorts of businesses. Entrepreneurs routinely price their products higher than they should if they want to attract a wide range of customers. And that goes for wholesale as well as retail. Wholesalers expect deeply discounted prices by buying in quantity, yet entrepreneurs often ask for prices that are anything but discounts. Sometimes that's a production issue—decreasing production costs always translates to lower prices—and sometimes an inexperienced entrepreneur hasn't been exposed to the sorts of discounts that major wholesale buyers can command.

Price is just part of what you need to take into account. For instance, does age come into play? Is your product or service attractive to a person of a certain age, or does it appeal to customers whose ages range across the board? Does that include kids and teenagers? What about college-aged kids and postgraduate millennials?

What about gender? Is yours a male- or female-only product, or might anyone be interested? Go through these questions with an idea of expanding the appeal of your product.

## SHUT UP AND LISTEN!

One way to look at the challenge of catering to the masses is to approach it like a restaurant menu. Of course, some restaurants don't exactly cater to the budget-minded among us—or, for that matter, don't include children or diners with particular dietary needs among their target market. That's perfectly okay.

But a restaurant that's aiming for a wide audience knows how that goal should be reflected in its menu. More affordable sandwiches and small dishes can complement higher-priced items. A kid's menu targets the younger diner, while giving mom and dad a price break. Gluten-free, vegetarian, vegan, and other options cater to customers with particular diets.

You get the idea. Offering customers a wide range of choices is one proven way to cater to the masses.

With that in mind, consider the products or services your business currently offers. What could you add to that “menu” that might attract a broader customer range? What products or services would naturally complement what you already sell? For instance, if you're selling your grandmother's homemade pasta recipe, can you introduce other flavors or other fillings? How about her from-scratch tomato sauce to accompany the pasta? What seems like a natural add-on?

If more products aren't the answer, or even possible, what can you do to make what you already have more appealing to more customers? That could be as simple as broadening the range of colors or varying the material used for a particular item. Can a product be used for something other than what it was originally intended to do?

The point here is to always stretch your thinking, to see

beyond the obvious. Look at what you have and explore any ways you can add to it or reframe it so that more customers will sit up and take notice.

I'm not saying that you can't sell an exclusive product or something geared to a specific audience. That's fine. But if you want to attract the sort of financial response you need to help your business break out, it's always a solid idea to try to engage with the biggest audience you possibly can.

That's because, particularly for entrepreneurs and small, emerging businesses, you want to sell to the masses, not the classes. Businesses that cater to the masses inevitably end up making more money than those that limit their scope.

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### **TILMAN'S TARGETS**

- Cater to the masses, not the classes.
- Work to make your product appealing to as broad an audience as possible.
- Understand your competition.
- Know your target audience.



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## SECTION 2

# YOU'D BETTER KNOW YOUR NUMBERS

**O**ne overriding factor determines whether any business is destined to rise to the next level or struggle endlessly: your numbers.

This is something I emphasize not only in my own businesses—as I like to say, ask me anything about my businesses, and I'll be able to answer you—but to entrepreneurs of all sorts. You need to know your numbers, and you need to know them cold.

If you ask me why I've been successful, I usually break it down into four reasons:

1. I know my numbers.
2. I understand operations.

## SHUT UP AND LISTEN!

3. I know the developmental side (i.e., how to grow your business).
4. I change, change, change with the times.

Of those four, knowing your numbers is by far the most important piece of all.

The reasons are simple yet powerful. The numbers drive everything that happens in your business—what you have coming in, what you have going out, and the critical interaction between the two. And if you don't know your numbers—and by “know,” I mean right down to the specific decimal points—you're likely headed for trouble.

Just as important, a failure to know your numbers can needlessly handicap your business's growth. Without sufficient cash on hand, you may find yourself passing up opportunities that you might have otherwise pursued. Or you might make financial decisions and commitments that you later regret.

I don't care how great a product or service you have. If you don't know your numbers, you'll go out of business.

Don't let that happen.

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## CHAPTER 4

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# WORKING CAPITAL IS EVERYTHING

**E**very number that has to do with your business is undeniably important. But one financial reality is of particular importance to small businesses looking to scale.

### LISTEN!

For a small business or an entrepreneur, working capital can mean the difference between success and extinction.

Many entrepreneurs have a dangerously simple idea of how business works. To them, it's very straightforward—you sell something to someone else, and you get paid. End of story.

Except that's not even close to how things work.

Here's an example of what I'm getting at. Let's say an entrepreneur designs an absolutely beautiful purse—stylish and eye-catching at the same time. She takes a sample around to various high-end retail outlets, and the product is appealing enough to attract immediate attention from the store owners.

“You know what?” says one. “I'd like to carry those in my store. I'll take thirty-six. When can you deliver them?”

That's a problem. The entrepreneur is thrilled with the order but lacks the necessary cash to buy the materials to produce thirty-six purses. And after the purses are manufactured and delivered, the store placing the order can have a month or longer to pay for them, according to most current accounts payable standards.

That's an issue that I see over and over again with all sorts of entrepreneurs. They expect to be paid right away, only to discover that the money they rely on to keep things operating isn't going to arrive for a month and a half.

What do they run out of? Working capital. And in my experience, the number one reason—by far—that people don't make it is because of working capital.

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“The biggest issue that small businesses face involves working capital, because they have to pay for everything up front.”

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Breaking down the topic a bit, working capital is the difference between a company's current assets and liabilities. Current

assets are those that can be turned into cash within the next twelve months; liabilities are expenses, costs, and other charges within that same twelve-month time frame.

Working capital is well named. That's because it's money you can put to use right away to help your business function at its peak all the time.

A company's working capital situation is determined by a number of factors. For instance, some businesses require more working capital than others, such as manufacturers that need funds to buy supplies necessary to make products.

How long it takes to make those products is known as the business's operating cycle—the longer the cycle, the greater the need for cash on hand. Operating cycle also refers to the situation I described earlier: the entrepreneur who makes a sale but has to wait several weeks to be paid. That's a gap that needs to be filled.

Then there's the sort of business in question. For example, if you have a business that's cyclical in nature—you have certain busy seasons or have products geared to particular holidays—you're going to need plenty of working capital. That's money that will not only see you through leaner portions of the year but also help you gear up as you approach peak seasons.

Christmas is an ideal example. Many retail businesses experience a significant sales spike during the holiday shopping season. Yet many struggle since they don't have the working capital necessary to stock up for the holidays.

Working capital also fuels growth. If a small-business owner or entrepreneur starts a business and wants to expand it, they'll need lots of working capital to fund that expansion. On the other

hand, someone with more modest goals may be perfectly happy to stay small, requiring less cash.

These and other issues are the sorts of things that never occur to many entrepreneurs—until the day they find they lack the necessary cash to meet even the most basic expenses, let alone have the money to grow.

If you think about it, that creates something of an uneven playing field. Many small businesses have to pay for essential expenses up front, only to find that the same sort of quick payment doesn't happen when customers place an order. Unfair maybe, but that's the way it is.

Sometimes the worst thing that can happen to a small business is sudden success—by success, I mean a large number of orders. On the surface that may seem like the best thing that can happen, but without working capital available to produce the products to fill those orders, all you may end up with is a rash of unfilled orders and angry, disappointed customers.

Even having a large number of assets won't necessarily cover for a lack of ready cash. The infamous Enron story is a perfect example. Enron went under due to a lack of liquidity and working capital. They had billions in assets, which they didn't have time to sell to pay those basic expenses I mentioned earlier. Their assets were eventually divvied up and sold off after the company went under. With billions in assets, they didn't have to fail, but they did because they didn't have sufficient working capital.

So, what's the answer? Every business needs a “revolver,” meaning a revolving line of credit, such as a bridge loan or line of credit, to fill in the gap.

The trouble is, getting a line of credit or loan can be difficult, particularly for a new business. Banks have been cutting back on their financing of small businesses, particularly larger banks. And as smaller community banks are swallowed up by larger institutions, the number of choices available to borrow from is growing smaller all the time.

I know exactly what this feels like. When I was starting out, I tried to get my hands on money in every possible way I could—credit cards, you name it. (One thing I didn't do was reach out to friends for loans. If you want to lose a friend, just ask for a loan. Nothing destroys a friendship faster.)

Add to that the fact that, at the time, the banking environment in Houston and throughout Texas was being shaken to its core as bank after bank shut its doors (a situation that, as it turned out, worked in my favor, as I describe in a later chapter), so securing working capital was nearly impossible.

Even though the banking situation is a good deal more stable now, it can still be difficult for entrepreneurs and small-business owners to get financial help from a bank. Often, new businesses have little in the way of operating history to support their credit worthiness or collateral to borrow against, so their inability to secure loans isn't all that surprising. Many lenders will give lines of credit only to companies that have a minimum of two years' worth of operating history.

Start by building up your cash reserves. This is separate from bank financing but is a critical step to ensure you have as much liquidity as possible. It's important for entrepreneurs to understand that business cycles go up and down. Be prepared



## SHUT UP AND LISTEN!

for the down cycle. During down cycles, use your cash to expand your business. But during boom cycles, save cash for the next downturn.

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“When things are bad, eat the weak  
and grow your business.”

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That’s not just a matter of survival. It gives you the opportunity to eat the weak and grow your business—while others are struggling mightily.

Here’s an example of what I’m getting at. Lake Charles, Louisiana, may not be a familiar city, but it’s the primary gaming market for my hometown of Houston, Texas—the oil capital of the world and fourth-largest city in the United States. Owning a casino in Lake Charles was something I had my eye on for a long, long time, because I knew I could do a bunch of business there by bringing in my unparalleled hospitality, which everyone in Houston already knew.

The problem was that no more available gaming licenses were available in Louisiana, making getting into that market very unlikely. Or so I thought.

Out of nowhere, on May 29, 2013, the Federal Trade Commission (FTC) announced that a casino in Lake Charles that was being built by Ameristar Casinos (which was being acquired by Pinnacle Entertainment) had to be sold in order to avoid an antitrust problem. I knew that the other major casino

companies could do a bunch of business there. I had to separate myself from them, and fast. What did I do? I was in the middle of buying another casino, but I killed that deal and immediately got on my plane and flew to Vegas to meet with then CEO of Pinnacle, Anthony Sanfilippo. I offered him a \$50 million deposit—completely nonrefundable. I told Anthony that if I didn't close on this deal, he could take the money I put up and sell the casino to someone else.

The building was barely out of the ground, I knew I needed at least \$800 million to complete the project, and I had to get the deal approved by the gaming board—all of these could have impacted my ability to close. But I knew that this might have been my only chance to get into the Lake Charles gaming market, and I was ready. Having the ability to put up \$50 million and make a big bet on myself and my company is what it took to get the deal done.

Everybody blinked when I staked that amount of money! But I was in a position to do that because I had accumulated the necessary cash.

The same thing happened when I put up \$100 million nonrefundable to buy the Houston Rockets, fully aware at the time that I might not be able to obtain the necessary financing. Because I never stopped thinking ahead in building up cash, I was able to fulfill the lifelong dream of buying a sports franchise in my hometown.

### LISTEN!

Okay, so you're not in position (yet!) to make those sorts of deals, but the same principle applies to any

## SHUT UP AND LISTEN!

sort of business. Want to know an easy rule to make certain you always have adequate cash on hand? Never put your lifestyle ahead of the growth of your business.

I've seen it for years. All of a sudden, young companies start making an extra \$20,000 a month, and instead of using it to help their businesses grow, the owners buy new homes and new cars. Then their business slips a little, and they end up working like hell, trying to keep up their personal lifestyle.

In fairness, I also own a nice home, boats, and planes. But those purchases never occurred before making certain that all my businesses had sufficient cash to leverage opportunities at all times. I've always kept the majority of my money in my company. I bitch to everyone that I never have money because I keep it all in the business!

But that's why I've gone from \$4 million to \$4 billion in thirty years—I didn't go out and buy \$100 million Picassos like some people. I didn't buy a house in Malibu. I used that money to buy more companies and to build buildings.

About five or six years ago, I took a big dividend out of the company—roughly \$600 million in cash. I didn't go buy a new plane. I didn't go buy a new boat. I didn't go buy a piece of art. I sat there with the money, knowing that times were going to get tough. I was able to make some huge acquisitions. That's because I was liquid when there was a downturn.

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“Never put your lifestyle ahead of  
the growth of your business.”

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This comes back to something I say a lot, but it bears repeating: when things are good, we tend to forget that things can get bad. One of the biggest mistakes an entrepreneur can make is to assume the good times will always last. I've been through three major economic downturns, and being prepared is the only way to weather these storms. During the 2008 recession, my company wasn't caught off guard. Our income dropped 10 percent. Fortunately, we survived by being ready in advance. We always have cash or credit capacity set aside, ready for the next downturn. And so should you.

Next, address the issue of bank financing. The first step is simple: get it before you need it. I cannot stress this enough. Work to obtain bank financing as soon as you can get it, which is generally easier to secure when the economy is strong and your business is doing well. Not only does that give you the best chance to get financing on the best possible terms, but when things take a downturn—which they inevitably will—you're going to have cash within reach to make it through.

Additionally, pursuing bank financing when your business is doing well lets you leverage those factors that every lender looks for—positive cash flow, and solid and consistent revenue and profits, among other things.

## SHUT UP AND LISTEN!

Pay attention to your personal credit, especially if your business is new, with little or no credit activity. The biggest factor in many banks' decisions to lend businesses money is the owners' personal credit rating. To boost your credit score, be sure to pay personal bills on time and keep a low ratio of debt to available credit on personal credit cards and credit lines.

### LISTEN!

Don't just go into the bank and tell them you need money. Walk in there like you know how to borrow money and have a thorough business plan with you. Be sure to have a comprehensive overview of your current circumstances, specifically why you're asking for the money, as well as a strategy that outlines your future plans. And don't make the mistake of limiting your plan's outlook to the next thirty days. Instead, map out plans for the next one to three years—the longer and more detailed, the more favorably a lender will view your application.

But as I like to say, don't go so far as to start drinking your own Kool-Aid. If, by chance, the scenario you lay out to a lender is too good to be sustainable, you're going to be out of business even if you obtain the cash you're after. That's because you won't be able to meet that aggressive a level of obligation—meaning that you can't afford the loan.

Here's what I do and what I suggest you do as well. With every

scenario and every deal, I run a best-case scenario, a likely scenario, and a worst-case scenario. If you do that—and provided your numbers work—feel free to offer the banker your best-case scenario.

However, this strategy comes with a few cautions. First and foremost, don't lie to yourself. If the numbers say you can't manage your best-case scenario, don't talk yourself into it, no matter how much you may need the money. Be absolutely certain your best-case scenario is, in fact, doable. Otherwise, you're driving your business straight off a cliff.

Additionally, don't overlook the value of drawing up a worst-case scenario. That's because you want to be confident that you'll still be in business if anything and everything goes wrong. In the worst situation possible, where will you be? Everyone wants to assume that everything is going to work out, but know what numbers you'll be looking at in the event that things turn out badly. What will you do when you have half the amount of business you thought you were going to have?

It's perfectly fine to keep your worst-case scenario to yourself. After all, you want the money. But along the way, don't lie to yourself (or the bank) and convince yourself that a certain plan is going to work out when the numbers say otherwise. Why? Because, sooner or later, the worst is going to happen, and you need to understand whether you're going to be able to survive or not. Eighty percent of the time, you're going to hit the worst-case scenario and not the best-case scenario, so make sure your business is still going to be in business under the worst-case scenario.

If you're turned down for a loan or line of credit, don't give up. If you don't already have one, get a business credit card. Not

## SHUT UP AND LISTEN!

only can that offer some source of necessary funds, but using it responsibly will help build your business's credit rating and history, which, in turn, may help if you try again to obtain bank financing.

No matter the specifics, remember that working capital is everything. A business without a ready source of cash is playing with fire, day in and day out.

That was my concern with Nicole Di Rocco of NICOLITA Swimwear, a company featured on *Billion Dollar Buyer*. The maker of unique swimwear once had a contract to supply a department store, only to have it fall apart after the store renegotiated her contract for a net 90 arrangement. Translated: ninety days to be paid by a buyer. Meanwhile, she lacked sufficient capital to bridge the gap.

Happily, when I met Nicole, she readily acknowledged her need for working capital with which to grow her business. Over my time working with her, she was able to significantly expand her company's line of credit to carry her through the ninety-day waiting period to get paid. It also paid off for her: she accepted a deal with me worth \$175,000 for swimwear for use in my resorts as well as for retail sale. All because she quickly realized that, when it comes to growing a small business, working capital is everything.

### TILMAN'S TARGETS

- Working capital is the lifeblood of any business.
- Loans and lines of credit are two excellent sources of ready cash.

- Borrow money when times are good, even if you don't need it.
- Draw up a worst-case scenario that you can keep to yourself. If everything goes wrong, you want to be certain you can stay in business.

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## CHAPTER 5

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# THE PITFALLS OF PROPERTY LEASES

**E**very entrepreneur who starts a business is focused (or should be focused) on the usual things—product, production and labor costs, and marketing, among many others.

Those are all perfectly valid concerns. But one other issue tends to fly under the radar of many entrepreneurs' attention: property leases.

At first glance, that may seem like a relatively minor concern. After all, property is nothing more than a place to conduct business. If you have a place that suits your purposes, what else is there to worry about?

A lot.

This goes back to an issue I raised in the prior chapter. When planning for the future, it's natural for entrepreneurs to map out plans they fully expect to run like clockwork—a complete and

unqualified success. Most likely, no entrepreneur in the history of business has ever started something without utter confidence that the venture would move forward and flourish.

But it's equally valuable to draw up a plan B of sorts—one that turns out significantly less successful. Again, that's something you should feel free to keep to yourself, though it's essential to anticipate what things will be like if, by chance, your business struggles or, even worse, fails to survive.

That's where property leases can come into play, and not necessarily in a good way. If your business does struggle or go under completely, and you decide to give up (in my view, something that many businesses do way too early, but we'll get to that later), what happens to the property you were leasing for the business?

If you haven't been proactive, you keep on paying. That's what can happen.

Think about that for a moment. You may be paying a relatively small amount to lease property—say \$5,000 a month—on a five-year lease. If things go bad and you're forced to close, everything comes to a sudden halt—except for your lease payments. If you've been in business for two years and shut down, that's \$5,000 a month for the next three years—\$180,000—that you may have to keep paying, even though your business is long gone, all because the landlord hasn't found a replacement tenant.

What many entrepreneurs fail to realize is that leases can be comparable to taking out a bank loan. Regardless of what happens, you owe that money, and the bank—or in this case, the landlord—is going to make certain you pay it.

If you try to refuse to pay what you owe, watch out. Like

any lender, your landlord can bring a suit against you and garnish any assets you have. They have every right to collect what's owed them, like anyone who loans you money. Signing a lease is exactly like signing a promissory note. When you put your name on the lease, you're guaranteeing that you'll pay what's owed on that lease.

It goes without saying that this situation can cripple you financially for years to come. For instance, if you shut down your business at an outside location and try to keep it going in your home or garage, you're still burdened by a lease payment for space you no longer use. Thinking about giving up on the old business and starting something completely new? Again, you're going to have to do it with a financial burden hanging over your head—often a very significant one.

### **LISTEN!**

Fortunately, the situation doesn't have to turn out that way, but you need to know a few strategies before you sign on the dotted line. First, try negotiating a clause that allows you to cancel your lease if revenue projections haven't reached a certain goal by the six-month or one-year anniversary of the lease.

Another choice is a buyout clause. This gives you the option of paying to terminate your lease if your business isn't generating sufficient revenue to afford the expense. The downside is that a buyout clause can be expensive, maybe as much as fifty cents on the dollar of the amount owed for the remainder of the lease.

## SHUT UP AND LISTEN!

This can depend on prevailing market conditions and how confident the landlord is about finding a new lessee to take your place.

As another form of protection, pay attention to the length of the lease. First, if you're just starting out with a relatively new business, a long lease can be a bad idea—the longer the lease, the longer your liability if your business doesn't succeed. The general rule of thumb in terms of shielding your liability is the shorter, the better.

Of course, a landlord may not be particularly enthusiastic about a short lease. He or she wants as much security as possible, so any tenant is locked in for the longest time possible.

This can be addressed by a lease with term options. For instance, you agree to an initial two-year lease with more options to renew when that time period ends—for example, options of two or three additional years. While that gives both you and your landlord additional flexibility, understand that the landlord will likely insist that any additional options will mean an increase in the rent you pay every month.

If you're looking at term options, negotiate them in your favor. For example, make it clear in your lease agreement that you're the one who has the right to exercise the additional term options, meaning that your landlord has to agree, as long as you stick to the requirements outlined in the lease terms.

Another strategy is making certain you have the option of finding someone else to sublease the property if you can't make

a go of it. In this situation, somebody else effectively takes over your lease, freeing you from further financial responsibility. To avoid problems, ensure your lease says your landlord can't unreasonably refuse to consent to a new tenant who's financially qualified.

Of course, this is all part of doing your due diligence before signing a lease. Get a sense of the rent on comparable properties, to make sure your financial commitment is in line. Understand all the costs tacked on to the lease payment itself. Review any stated increases in lease payments, as well as your obligation for utilities and other expenses.

Lastly, it's never a bad idea to work with an experienced real estate attorney to address these and other issues. That can make your lease a valuable component of your business rather than a needless liability.

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### **TILMAN'S TARGETS**

- Make certain you understand how to get out of a lease early, including buyout provisions, subleasing, and other options.
- In general, look for a short-term lease—ideally, with renewal options that you can choose to exercise.
- Know all costs associated with a lease.
- Work with an attorney experienced in commercial real estate to help negotiate the best possible lease package.

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## CHAPTER 6

# KNOW YOUR NUMBERS

As you can tell from my show *Billion Dollar Buyer*, as well as the ideas and topics covered in this book, there's a great deal that I like about working with entrepreneurs. They have vision. They have courage. They have commitment to their ideas and their products. And they have the nerve to keep going when many others would happily throw in the towel.

But some things do bother me. And nothing bothers me more than an entrepreneur who doesn't know his or her numbers.

It bothers me a hell of a lot.

By numbers, I mean everything to do with your business. Cost of supplies. Cost of production. Labor costs. Costs of sales. Margins. I won't bother going into any explanation regarding them. You should know exactly what I'm talking about. And if you don't, you'd better find out.



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“Know your numbers. Numbers don’t lie.”

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As an entrepreneur, chances are excellent that you know—or certainly should know—all those numbers are essential to understand. But in my dealing with entrepreneurs of all sorts, I’m constantly amazed at how many entrepreneurs don’t know these numbers like the backs of their hands.

First off, numbers concerning your business are the lifeblood of that enterprise. They tell you everything you need to know about where your business has been, where it is now, and, perhaps most importantly, where it’s headed. They offer the single most valuable and accurate read of your business in its entirety.

That’s a hell of a lot that goes without the attention it needs, if you don’t know your numbers.

Just as bad, even entrepreneurs who have a basic understanding of their numbers often don’t know those numbers at the level of detail they should. From where I stand, an entrepreneur needs to know numbers down to their decimal points. For instance, they should know if their utility costs are truly 4 percent. If you know your costs to every tenth, at the end of the month, you can see where you need to fix those numbers.

That kind of specific knowledge arms you with the best information to confidently make good decisions, particularly the tough ones.

I make it an ongoing, everyday point to ensure I’m completely familiar with all the numbers having to do with my businesses.

I also make budgets an everyday priority. I have both weekly and monthly budgets to keep track of what we're doing, from a profitability standpoint. I even run daily reports, which I call my "flash reports," for each of my different businesses. These flash reports show me the most important information that allows me to know where I stand at all times. Knowing how your business is performing from a financial standpoint on a daily basis is equally important as selling your product.

You can and should do the same. Know what your lease payment is for the month, what your salaries are, cost of sales, and other known operating expenses, and track all of those expenses regularly, along with your revenue. To the extent that your revenue is greater than your expenses, then you know if you're making money and if you're on budget or not. Simple, but a key part of my success.

You don't want to be surprised thirty or forty-five days after the end of a month to suddenly realize that you lost money. You need to know exactly where you are within a 5 to 10 percent degree of certainty—all the time.

Knowing your numbers is essential, no matter how your business is performing—the more specific that knowledge, the better. If your business is on the upswing, you must know everything about the income and expenses, to the smallest detail. If you don't have a solid handle on the numbers for inventory, overhead, staffing, and supplies, you're going to find it that much harder to take your business to the next level. Your decisions won't be as sound, you won't be able to think on your feet and make good decisions quickly, and you may inadvertently pass on

## SHUT UP AND LISTEN!

great opportunities, because you don't know if your numbers can handle them or not.

Numbers are just as vital when your business is struggling. Lacking specific knowledge, you may be unable to identify the problems holding back your business. Worse, you may decide that one particular area of your business is the culprit, only to discover later that your lack of knowledge about your numbers led you to something that wasn't the problem at all.

When do you make that discovery? All too often, when you hand the keys to your landlord shortly after you shut down your business.

Knowing your numbers inside and out doesn't stop with the numbers themselves. It's also essential that you put them in perspective, so you know whether your numbers are where they should be.

I mentioned this in the prior chapter, when I discussed obtaining the most favorable lease possible. It's critical to know what the going rate is for a certain amount of space—that is, what's a good deal? Are there areas in the town or city your business is located where you're going to pay a premium for space?

The same goes for your other numbers. Know that your labor costs should be in a certain range. Utilities should never account for more than a specified amount. These and other frameworks let you see a broader picture of what parts of your business are on solid ground and where you need to make some serious adjustments.

Knowing your numbers is also a critical element of your sales pitch, regardless of who you may be pitching. If you're talking with a banker or some other lender, you'd better know your

numbers inside and out. And if you're talking with a potential business partner—such as me—your knowledge of your numbers should be every bit as thorough.

Still, when I'm talking with budding entrepreneurs, the conversation goes the same way all too often:

“What's your cost of labor?” I ask.

“Uh . . .”

“How many employees do you have now?”

“Eleven.”

“Can those eleven employees take you from \$2 million to \$4 million in sales?”

“Well . . .”

“You do understand that if they can do that, you've effectively cut your labor costs in half, right?”

“Um, sure . . .”

And on it goes. Are margins holding up, including gross margins and net margins? Are you turning over more money but only making slightly more or the same in revenue? Sometimes the answers come from confusion rather than out of ignorance, such as mixing up labor costs with lease costs or mistakenly combining the two.

No matter the specifics, I'm continually shocked about how little people know regarding the economics of their own company. In fact, when I go in and meet these new companies, I can tell within three minutes if they have any idea what they're doing.

All this raises a question: If I can tell in a couple of minutes whether a business's numbers look good or not, what am I looking at?

## SHUT UP AND LISTEN!

I start with revenue. Next is cost of sales. After that are labor and other expenses. There are other issues to bear in mind, but those are the primary ones.

When it comes to numbers, most entrepreneurs assume that to make more money you have to boost revenue. That's true, but not always. For instance, a business with labor expenses at 25 percent immediately becomes more profitable if those costs go down (a theme I talk about all the time on *Billion Dollar Buyer*). Selling more may mean nothing if your costs continue to increase—something that knowledge of your numbers helps you keep under control.

Although this sort of knowledge and analysis—being able to really dig into your numbers—is critical to boosting your business and pushing it to the next level, this doesn't mean all entrepreneurs need to be numbers whizzes. If you're trying to run a company but can't keep track of costs and sales, make it a top priority to hire people who can.

They'd better be strong, because without them, you're not going to survive. That's because your numbers mean everything. Treat them that way.

### TILMAN'S TARGETS

- Knowing your numbers is the most essential part of being able to take your business to the next level.
- Make daily flash reports and budgets a priority.

- A complete knowledge of numbers is also critical to any sort of successful sales pitch.
- If you don't or can't master your numbers, partner with or hire someone who can.

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## SECTION 3

# THE 95:5 RULE: WHAT'S YOUR "FIVE"?

**B**eing in business can involve all sorts of formulas. But when it comes to what can make your business either a success or an ongoing struggle, I always use a simple ratio to make sure I'm paying attention to what really matters.

### LISTEN!

I call it the 95:5 rule. The breakdown is simple. Most moderately successful businesses are good at about 95 percent of what they do. It's the remaining 5 percent that can determine whether the business excels or not.



## SHUT UP AND LISTEN!

I've seen businesses wrestle with this over and over. Often, they haven't identified that critical 5 percent. Sometimes, they're needlessly worried about the 95 percent that *is* working. Other times they know the 5 percent that isn't working but don't know what they can do to change that. Maybe they refuse to believe that particular 5 percent is all that important.

That 5 percent isn't just important—it's absolutely essential. And that 5 percent can appear in all sorts of ways.

Five percent may not seem like much, but it is. The chapters in this section show you how to know your 5 percent and what you can do to make your business excel.