
How Successful Businesses are Organized

Lesson # 2

Lesson # 1 was an Introduction to the money management methodology I will present in these lessons.

In this 2nd lesson, I will describe how successful businesses are organized. To succeed in business, whether you are a small mom and pop grocer or an international corporation, the one element you absolutely must have is information. And the information must be organized in a manner that enables you to make practical and educated managerial decisions.

Attempting to make critical managerial level decisions without information about your company's operating performance is similar to flying a plane in the dark without instruments. Imagine that you are the CEO of General Motors and you arrive at work in the morning to find an empty desk. You do not have any information as to which cars are selling well and which cars are not, how much profit you are making on each car, on which cars to raise prices, which cars to discontinue etc. Would you be able to make intelligent managerial decisions in this type of situation.....or would you eventually go broke?

Unfortunately, most traders attempt to compete in the extremely volatile trading arena while sitting behind an empty desk. Most traders open an account and immediately begin trading without any business structure to organize their trading operations. And trading is not treated as a business, but instead becomes a form of excitement or a hobby.....with the inevitable results.

Every successful business is operated in a structured environment designed to provide management with the information necessary to make the crucial managerial decisions required to profitably function in today's highly competitive environment.

The standard model of business organization is the Profit Center. Profit Centers enable management to segregate revenues and expenses in a way that helps management to use the information to adjust to rapidly changing market situations.

For example, a restaurant may have three Profit Centers for breakfast, lunch and dinner. The breakfast Profit Center would be credited for the sales customers paid for breakfast and charged with the expenses required to make the breakfast such as waitress salaries, food expense, etc. Similar techniques are used for the lunch and dinner Profit Centers.

Management can now utilize this information to determine which meal is producing a profit and which meal is producing a loss. A meal which is producing a loss should be analyzed to determine if sales can be improved, and if not, whether the meal should be discontinued. The important point to realize is that an educated decision cannot be made without information which is both practical and well organized.

Other examples of Profit Centers are a supermarket with bakery, meats, produce and frozen foods Profit Centers.....or a department store with boys, men's, and women's clothing Profit Centers.

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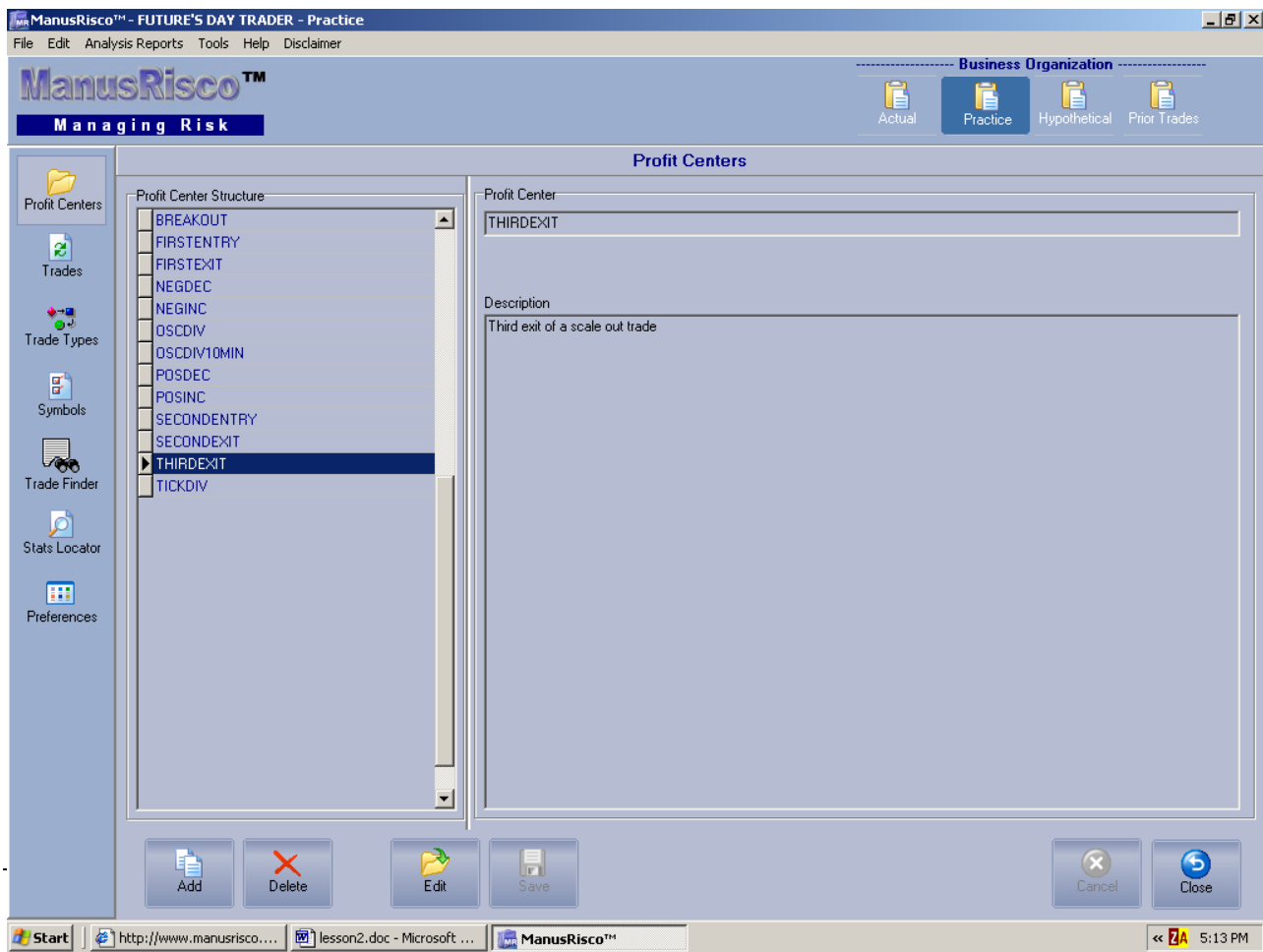
If you can't successfully manage a restaurant, supermarket or department store without properly organized and timely information, what makes you think you can succeed at the trading business, which is a hundred times more volatile and hectic than a supermarket or department store business?

The empty desk business management model will bankrupt you not only in the business world, but also in the trading game.

The empty desk also produces fear and anxiety which will eventually destroy you. Lack of information creates the unknown.....and the unknown creates fear and anxiety. A good example is the fear and anxiety we all felt when we were 5 years old and walked into school for the first time, and we were separated from mother. We had no information what school was like, so we were fearful and anxious. But after we had information (we met our fellow classmates, we got to play with blocks, etc) the fear and anxiety started to disappear.

Timely and practical information enables the trader to master the destructive psychological emotions he is confronted with on a daily basis.

A typical Business Organization for traders is shown in the illustration below. We will discuss this type of business structure in later lessons.



So now that we know the basics of a structured business environment which is designed to provide the information we need to successfully compete, the next question is, how do we apply our business model to trading? And that will be explained in our next lesson.

Tom D'Angelo
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