

PLANNING STEPS TOWARD SUCCESS



Survival Is Not Your Goal

by Chia-Li Chien

I was at a WPO conference late April 2009 in San Diego and decided to attend a 7:00 AM Jazzercise® session. I was confident that it would be a breeze for me, since I had kept a 5-day a week exercise routine over the past twenty years.

I was shocked to find at least 250 people jam packed in the 40 ft. by 100 ft. conference room where the Jazzercise® class was held. With only about a couple of feet between myself and the person beside me, I felt boxed in, with no room to maneuver. The gentleman behind me was twice my size and the thought that he could knock me down during kickboxing exercises worried me. About thirty minutes into the intense *program I was completely out of breath. I found myself working harder than ever but just couldn't seem to get enough oxygen, much less keep up with the rest of the crowd.*

Do you feel the same way in today's business environment? Since the last quarter of 2008, many businesses feel competition tightening. Even healthy companies may feel boxed in, without room to breathe. Take a look around you today. Is your space so packed with competitors that there is not enough space to move around? Is it over-crowded in the space you're playing?

Don't Get Boxed In

Many of my clients tell me their competitors fall into a cycle of being forced into low bids in order to keep one step ahead of their creditors. Those businesses get boxed in by bills they cannot pay, and many fail. For you, it may feel good that your company is still able to find its space in this tough environment. On the other hand, your revenue may be down and you're faced with some hard decisions. Those companies surrounded by uncertainty may soon be out of business. Now is the time to consider this – has your company created a space with enough room to maneuver and breathe in this tight economy?

Focus on Income Generating Activities

After the Jazzercise® class, I participated in the WPO sessions relevant to my clients. There, and over the years, I've heard and seen many speeches, articles, books centered on "surviving in today's economy." There are a few discussions on sustainability, but most simply address cutting costs and expenses.

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Let me say this straight out, sustainability does not equal expense or cost cutting only. If you're only focusing on cutting your operating expenses, think again. Yes, you must often cut expenses to actually help you identify the waste inside your company. However, put your focus and priorities on income generating activities.

Remember, small to mid-size privately held businesses operate very differently compared to Fortune 1000 Companies. Since you are small, flexible and able to move quickly, you can focus on income generating activities, *beyond survival mode*. And when you do, you create greater value for all stakeholders.

To create this type of value in your business, I have identified six major mistakes owners of privately held businesses must avoid.

Read each mistake carefully, and ask yourself if your company is effectively creating value.

6 major mistakes owners of privately held businesses must avoid:

1. Failing to leverage "pull marketing."
2. Too much revenue from one product/service/client.
3. Not believing in niche – being all things to all people.
4. Little or no systematized processes.
5. No idea of the return on investment on each productive employee
6. Not checking your company's profit margin periodically

1. Failing to leverage "pull marketing."

We traditionally focus our marketing efforts in the areas of direct marketing, advertising, telemarketing, public relations, and branding. With newer internet and electronic technology, there are a number of fresh ways to conduct push marketing with social media marketing on sites such as LinkedIn, Twitter, Digg and many more. We're consistently chasing prospective clients with "push marketing".

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Rob Slee, author of, **Midas Marketing**, defines “pull marketing as “the doors swings in your way.” And since Rob is an investment banker, those in a professional services industry might find his pull marketing blueprint works for you:

Step 1 – Establish yourself as a resident expert.

Step 2 - Attract market makers (companies already have the clients you’re looking for and have meaningful relationships with).

Step 3 – Offer compelling value proposition (what’s in it for me; WIFM) for the market makers.

Following these steps over and over could result in a floodgate of distribution channels.

Business Scenario:

One of my very good friends, Tina, is a known resident expert in deal making between manufacturers and material suppliers. Tina has spent the past 20 years winning numerous awards and gaining recognition in her industry, medical raw materials. She has established a wide network of manufacturers and suppliers globally. Most importantly, she knows that the market makers are typically Fortune 500 Companies who require a high standard of quality and service. Her firm not only meets these standards, but also creates potential savings for the market makers. However, getting into the matrix of Fortune 500 Companies or her market makers is a daunting task. But by creating a network of relationships, she came across few key contacts that helped her establish the connections she needed.

Tina started by hiring a retired sales VP, Josh, from one of the market maker firms. Josh quickly established a relationship with the market maker and won several major contracts during a down economy. Because of their company’s compelling value proposition – getting the material at near cost for the market maker, and using newer technology to improve the end-product and appeal to consumers – the company’s doors are now swinging in. Tina’s company has effectively leveraged pull marketing after many years of push marketing.

When pull marketing begins to work, there is more time to improve customer relationships, build necessary technology and innovation in services or products – more time to work *on* the business instead of *in* the business.

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Where are you in creating marketing space for your company? Are you leveraging pull marketing today?

2. Too much revenue from one product/service/client

Have you ever analyzed your revenue sources? Almost every company starts out with one revenue source. If you want to build a solid foundation for your business, assess how diversified you are in your revenue sources. And keep in mind; your revenue sources could be from different products/services or clients.

To diversify revenue sources, it is not necessary to create another niche. It could be that you could look into your own niche and find other revenue sources.

Business Scenario:

Lucinda has a staffing services niche in therapy staffing placement. She started out placing speech therapy staff, with a small client base of several county school systems. Once she established a solid relationship with each of the school systems, she started offering various types of therapy, such as physical and vocational therapy, prior to the economic downturn. Rather than putting all her eggs in one speech therapy basket, she effectively added additional types of therapy to diversify her overall revenue sources. In addition, to diversify products and services, she reached out into surrounding county school systems to further diversify her client base.

When you have a well-diversified revenue source from products, services or clients, you create a buffer between your business and the impact of external factors such as an economic downturn. Go through the exercise of calculating your revenue sources, sorting them by clients or products and services. You can clearly see what the percentage of each category is. That number can also help you determine the profitability of each client or product and service. This will become a decision support system that can help you determine how much your company should invest in each client or product/service. You can effectively decide when to stop offering certain types of products and/or services if they are not profitable. If you have a high maintenance and low profit client, it might be time to let them go despite today's economy, because if your company ultimately loses money by servicing certain clients, it's time to make some adjustments.

So how do you know if you have too much revenue from one product/service/client?

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3. Not believing in niche – all things to all people.

As the playing field becomes a bit crowded, everyone starts looking for ways to generate more revenue. Remembering your company can't be all things to all people, and by establishing your niche in one or two areas, you will be able to find your space and stand out of the crowd, clutter and noise. And sometimes the best and most creative ideas about where your company fits in come from desperate times.

Business Scenario:

Justin has been in the financial services industry for nine years. He sells group health insurance, individual health insurance, 401(k), Simple IRA, IRA, life insurance, disability insurance, college accounts and many more similar products. Even though Justin is in the financial industry, he offered so many different types of products that he has become all things to all people. As a result, his revenue is somewhat limited because he is not specialized in anything. Many successful financial service firms specialize in either a specific demographic or specific product type. That allows them to serve their clients effectively and with niche knowledge of that specific product line. As a consumer, would you rather buy a product or service from "a jack of all trades and master of none"? Probably not.

You can effectively navigate any economic cycle if you're niched in the right place, assembling a team and delivering your product or service in the most cost-effective way.

But are you niche-phobic?

4. Little or no systematized processes.

In today's business environment, everyone uses some sort of systematized process such as CRM's (Customer Relationship Management Systems), accounting systems, or order fulfillment systems. However, each business has its own internal processes, which if not systematized, can lead to a major over haul. And if you have very high volume seasons, without systematized processes, your company may not be able to handle the volume. If your process can't integrate with systems such as accounting or order fulfillment, you'll have inefficiencies that result in higher costs in your goods and services delivery.

Systematized proprietary processes are valuable and necessary to your business.

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Business Scenario:

David has had a construction framing business since 1995, becoming well known with a good reputation in the area. During the up economy, David had clients pouring in. The company was very busy and somewhat profitable. They had a difficult time keeping up with requests for bids – a great problem to have. However, before providing a bid, David was forced to go through the slow, manual, time consuming and labor intensive process of reading architectural maps and requirements. But despite this bottleneck, his team never developed a more efficient checklist or system to produce a bid.

Now, in today's economy, when there are fewer clients asking for bids, David has more time to review each bid carefully. He's realized that many of his past projects and bids were not profitable. There was no system in place to measure profitability, level of labor, material requirements, and margins. And most importantly there was not a clear process for the supervisor to follow when creating a bid.

When there is lack of underlying processes in your core competency it will result in undesirable, varied outputs, creating an obvious inconsistency in profitability. This creates missed opportunity and money left on the table.

Are your inconsistent processes and lack of efficient systems costing you?

5. No idea of the return on investment (ROI) on each productive employee.

Do your sales representatives actually add value to your company? How do you know? What is the return on investment, or ROI, on each one of them? Do you have a way to communicate with your sales force? How about those not in the sales force?

Business Scenario:

Joyce has been in the financial staffing business for twenty years. She now wants to expand her region and diversify her revenue source. She hired a VP of Sales, Chuck, from a major competitor's smaller divisions. Chuck is confident he can bring Joyce's firm additional \$5 M revenue within one year. He is planning to bring his entire book of non-financial staffing business with him. Joyce is thrilled to have him on her team, but she pays top dollar for Chuck. He is even making more money than Joyce. So what is the return on investment for Chuck? What are the total rewards Chuck receives? Oh by the way, add in that Joyce paid to relocate Chuck from 1,500 miles away.

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Can the additional expenditures be recouped within the timeframe promised? Let's assume the gross profit margin of the non-financial staffing business is 5% of the gross revenue, which will translate into \$250,000 (\$5M times 5%) gross profit for Joyce's firm. Chuck's total rewards include salary, relocation fee, group employee benefits, a retirement plan and other perks totaling \$350,000. Based on these numbers, Joyce won't even cover her investment in Chuck. To break even⁴, Chuck must bring in \$7M gross revenue from this new business.

Many business owners have a hard time determining the return on investment (ROI) on their producing employees or equipment. Understanding your ROI and effectively communicating your ROI expectations with your team will not only increase productivity but also your profits.

What is the ROI on your productive employees?

6. Not checking your company's profit margin periodically.

When was the last time you did an audit of your financial statements with an independent CPA firm? Has your business actually been profitable? Why does your tax return show huge profits but you have NO cash in the bank? What are your key performance indicators?

Business Scenario:

Paul has a thriving accounting business despite the economy. He complains that his company has to issue him a paycheck of \$150,000 just to pay additional personal income tax of \$102,000. Paul's company tax return (S. Corp) shows \$2 million in revenue with a \$300,000 profit.

Paul bought the company ten years ago when it was not clearing a profit, but now he has led the company into a profitable stage. Great news, right? Well, not quite. His company bank account is empty and no bank is willing to lend to him or extend a line of credit or capital to expand his market share. Paul is so frustrated, he wonders if the accounting entries were incorrectly entered in the system.

This is not a surprising story, because many business owners really don't understand finance. While most of us would say we'd like to increase our financial IQ, as business owners, to be quite honest, we don't want to be experts in this area. We just want to know what to look for and what to do with it. But in plain English – it is essential to periodically check your financial statements such as profit and loss reports, cash flow sheets and balance sheet statements.

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You, your CPA, and accounting team should collectively determine a set of key performance indicators (KPI). This will help you keep your finger on the pulse of your company. You will know if your company is going in a healthy direction as planned.

Do you know your company's profit margin?

Conclusion

As you might feel what I have felt like in that small conference room with large crowd. I did not get knock down but was so out of breath. My 5-day a week exercise routine for past two decades has lead me to believe that I am pretty fit. I am, but the fact was that I put myself in conference room that was small. The small conference room was the playing field which was over crowded. I was working harder then ever, was out of breath and had no room to maneuver. I am sure you feel the same way in today's economy.

During my WPO conference, Professor Lynda Applegate from Harvard Business School talked about how to find green space in your playing field. The green space is a space that your company has room to grow and breath. The playing field is your current market space. The chart below summarizes how to look at innovating your products or services in any economy cycle.

- Enhance your product/service – if your product/service and market is in the same place.
- Expand product/service – if you have same product/service and different market or same market with different product/service.
- Explore your product/service – if your product/service and market is in the different place.

	Different	Expand	Explore
Market	Same	Enhance	Expand
		Same	Different
		Products/services	

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Can you see how to find your green space? Look either inside your playing field or outside. Or best of all, create new space for your company. Don't just set your goal to survival mode? But if survival is your goal, remember, you will only survive. There will be very little or no value creation in your company while you're in survival mode only. Shift your driving gear from survival mode to value creation mode. It will take your company to a whole new level.

This is a great time to re-conceptualize your business model. Revitalize the architecture map on your business. Identify, prioritize, and run strategic projects that help you staying ahead of the economy curve. Your company needs to continue to create value for all stakeholders such as clients/customers; suppliers/vendors; employees and most importantly you - the owners. If you're not creating value for your company, you're just taking up space in your playing field.

Avoiding these mistakes can lead to the stronger value drivers for your business. This will position your company ahead of the economy curve and you can potentially capture the value during the up cycle of the economy. Don't you deserve to maximize the value from the hard work you put into your company?

Your business deserves an in-depth assessment if you think business is worth it. To thoroughly understand your value drivers in a much more detailed scale, take approximately thirty minutes to fill out the detail rating. Take an [on-line assessment](#) at our website www.chialichien.com and we'll provide a complementary consultation over a conference call.

We partner with business owners like you to help create a value driven strategic plan. We are there to help you develop the right solutions as you make important decisions about how to best benefit from the value you have created in your business.

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¹ For complete blueprint details, see Chapter 11 "The doors swings in" Midas Marketing by Rob Slee.

² For a complete formula to determine the ROI on productive employees, see Chapter 14 "Death of a salesman" in Midas Marketing or chapter 21 "Value of investment" in Midas Manager, both by Rob Slee.