

Long Term Business Success through Tough Times

A White Paper by Mark James



The current economic climate is providing business with challenges not seen in many years. Some of these challenges may already be crystallising in your business, while others may be emerging on the horizon.

Though painful, recessions are a normal and necessary part of our market system; they challenge all businesses to review and revitalise their resource allocation, strategic plan, business model and ability to generate cash. Periods of tough trading act in the same way as biological evolution – survival of the strong and the failure of the weak.

Most businesses that fail in these times are destined to do so from day one, either because of a flawed business model or ineffective execution – a result of bad management. A recession simply accelerates the outcome. Whatever the situation, this economic downturn will claim many businesses and as an owner and manager the power and responsibility is with you to act now to ensure you are not one of the failures.

From a “strategic” view point, the medium and long term success of any business will be determined by focus and achievement in four areas: **Finance, Customers, Systems and Processes and People.**

Growth and Consolidation – surviving in a downturn and thriving in the upturn

Most business owners know there are only **four ways to grow their business** (and I’ll talk more about these later) but while growth objectives remain important, in tough economic times a broader understanding of business success is required. From a strategic view point, the medium and long term success of any business will be determined by focus and achievement in four areas: **Finance, Customers, Systems and Processes and People.**

Planning and taking action in these areas is critical – not just to ensure your company’s short-term survival, but in order to lay the foundation of its long-term structural integrity. Without a sound structure in each of these four areas, short term moves and reactions to market conditions only delay the inevitable. There have been many examples of such failures in the recent past.

This current business cycle downturn will end and smart business people should now be asking themselves:

- *What shape do I want to be in when that time comes?*
- *What condition do I want my business to be in so I am ready to take advantage of the improving conditions and thereby set my business up for a further period of prosperity?*

If you are preparing your business for this time you are a rare breed and will be rewarded. Let’s now take a look at these four areas in more detail.

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The Financial Perspective

The primary success measure of a business is its financial performance; it's 'the score' and is the market's way of reflecting customer satisfaction. There are three steps required to first understand, then monitor and finally improve your financial performance by imbedding your financial Key Performance Indicators (KPIs) into your management process.

Identify your financial drivers

In order to understand if you have 'won the game' that month, quarter, year, decade, you must first understand the measurement system that reflects the drivers of success in your business and industry.

What are your financial targets, your KPIs? They'll probably include a mixture of revenue, gross profit, overhead, EBIT, EBIT per person, free cash, days to cash outage, debtor days outstanding, creditor days, jobs quoted, jobs won – the list goes on.

You and your management team can determine the right KPIs and targets for your individual business. Once KPIs and targets are set your team should aim to understand what drives the numbers. My experience in business is that some business owners and managers are good with numbers, others are good with strategy and planning and some are just good at doing the task their business promotes (i.e. being a good accountant or painter). The best owners and managers not only measure the numbers, they know how they are constructed and they understand what every day actions make them go up and down.

Monitor and benchmark

Now that you have set KPIs and targets and you understand what actions drive them, the next step to achieving financial control is to monitor and benchmark your results. Benchmarking provides an objective view of how your business is performing, encouraging you to balance your focus between external and internal perspectives.

A comprehensive set of benchmarks should include internal historical (i.e. against your previous years' performance which can be done from three perspectives: month on month, YTD on YTD and by means of a 12 month moving average), peer comparison (against your competitors) and industry standards.

Imbed the drivers in your business

Many organisations stop once they have completed the above two steps, however the most successful business owners go to the next stage and imbed the drivers into the fabric of their management process. They communicate the actions required to achieve KPI targets to employees, allocate individual or team responsibilities for their success and ensure the workforce is engaged and committed to the outcome. This is perhaps the hardest step, requiring the most ongoing effort, but is also the most critical.

To really achieve the financial performance you are seeking, your benchmarks and financial drivers must have life and breath; they must be in your weekly target sheets, monthly management reports, quarterly review workshops and be a leading subject of discussion at your annual management retreat.

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They must also be shared with your people. Would your employees agree with the following statements?

- *I understand our business' key performance indicators, the measures that tell us how we are doing.*
- *I understand what we as a team, and I personally, need to do each day to positively improve these performance measures.*
- *I gain motivation from the successful achievement of these goals and my reward and recognition is aligned.*
- *I am updated at least monthly on the business progress over the year (good or bad).*
- *The targets for our business are achievable yet challenging.*

To get the desired outcome, take your team through a workshop to understand the KPIs and how they are achieved, link drivers to employee objectives and individual performance plans and develop management systems to ensure these actions are taken every day.

The Customer Perspective

Michael Gerber, in his book *The E-Myth*, says the sole aim of any business is finding and keeping a customer. While we sometimes over complicate this process, it is – and always will be – the core aim of any business.

The understanding that there are basically just four ways to grow a business can play a crucial part in the philosophy of the entire business planning process. The four ways are:

1. Increase the number of customers of the type you want to have.
2. Increase the number of times customers come back.
3. Increase the average value of each sale.
4. Increase the effectiveness of each process in the business (see the next section: Internal Support).

It's interesting to note that three of the four strategies centre on the customer.

Achieving the *finding* part of the equation requires a simple, yet effective, integrated sales, marketing and delivery plan to ensure prospective customers – of the type you would like to have in your business – are captured.

The *keeping* side of the transaction requires clear, succinct and documented business processes and procedures that, from the customer's perspective, ensure you live up to the compelling promise you made in your initial sales and marketing offer.

How do your customers view your company? What do they think about its offer, integrity, or customer services standards? What is the real value your business provides them (by real value I mean the combination of price and non-price factors)?

What are your business strategies to achieve growth in this area?

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If you find it hard to create a point of difference for your product or service and therefore demonstrate value (rather than just on price), then I suggest you differentiate the *way* your product or service is delivered. Both *what* and *how* you deliver can create a compelling proposition to customers.

At Principa we say...

"People buy value. The key to success is to offer value to customers without resorting to price-cutting. This requires resolve, hard work and an understanding that people will pay good money for value but they often need to be guided in understanding the value proposition."

If you've read this article from the start you'll know a key element of the Principa processes is measurement – because we know that what gets measured gets done. Once you have identified your customer value proposition you must then measure your success in this area and be able to read the data to ensure that you can fix areas of weakness (again from the customer's perspective).

We believe that one of the most valuable tools you can use to monitor how well you are doing in the eyes of your customers is Fred Reichheld's Net promoter Score (NPS) concept. The NPS is a metric that reflects the extent to which a company has been able to delight its customers and Reichheld and his research colleagues have found it to be an amazingly accurate predictor of long run sustainable growth in earnings.

The NPS is based on the following question: *based on your most recent service experience with us, how likely are you to refer us to a friend or colleague?* On a scale of 0 to 10 where 0=no-way and 10=absolutely, if a person scores 9-10 she's considered to be a *Promoter* and if she scores 6 or below she's considered to be a *Detractor*. The NPS is the percentage of Promoters less the percentage of Detractors. Many companies have a negative NPS! A few have a high positive NPS and they are companies that typically exhibit superior financial performance. Reichheld's book, in which this is more fully explained, is called **The Ultimate Question** and we strongly recommend that you read it.

Now more than ever, the retention and development of your customer base is vital. In tough times the right customers are hard to find, harder to keep and more susceptible to switching if you don't have your act together. If you have not communicated your company's value proposition (I know you know what it is) or your customer can't tangibly see this value proposition in all business dealings you have with them, you will find your company is in the marketplace competing solely on price. Unless you are the cost leader in that industry – a very difficult position to achieve and sustain – you will be in for a rocky ride.

Internal Support Perspective

What systems, processes, support and tools do you provide customers, suppliers, staff and managers to ensure that your product or service is delivered efficiently and business productivity is high and improving?

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Most people work **IN** their business. However, the secret is to work **ON** your business so that you don't have to work in it. What does working **ON** mean? Simply developing systems — systems for everything! A number of things happen when you systemise processes. First, **YOU** don't have to do the process. Second, others less skilled than you can do it. Third, when you systemise, you automatically develop what we call 'a way of doing it here.' That 'way of doing it here' not only makes things happen in a totally predictable way, it makes your business worth much more. Why? Because you have a way of doing it here — and it happens like this each and every time.

Think about this concept by contrasting a local hamburger store with McDonald's. In which business would you rather own shares? Most likely, McDonald's. Is it because McDonald's makes better hamburgers? Probably not. You would take their shares because they have a better 'way of doing it here.' A 'way we do it here' manual actually makes the business more valuable because it takes out the risk that is associated with everything being in the head of the owner. A systemized business works effectively and predictably even when the boss isn't there; it builds a consistent and credible set of expectations for customers, i.e., they know what they are getting and they get it every time; it reduces transaction costs through efficiency; and empowers employees because they understand the process needed to deliver results.

What are you doing in your business about applying these processes and systems?

People Perspective

Have you heard the old adage, that people are your greatest asset? While I absolutely agree with this statement, I would also suggest that the *wrong* people can be your biggest liability.

Who the right person is for your business will depend on the industry, skills required, and culture and values the organization operates under. However, at a high level we all want people in our businesses who not only know what to do, they know how to do it and they have a willingness to do so.

At a seminar I attended at the beginning of this year I was astounded by a fact presented to me: a recent Gallup poll found only **20%** of the Australian workforce are **engaged**, that is, personally and emotionally committed to the business and its success. An alarming **60%** are **disengaged**, stuck, with no alternative to their current job and basically working the minimum required not to stand out, and **20%** are **actively disengaged**, which means they are proactively working against the business, its goals and aspirations and are putting their energy into derailing the success of the business and people around them. Look around you; what is the mix of your workforce?

There are many factors that influence employee engagement: the skills and competencies of your workforce; recruitment processes and systems; training and development; opportunity for career advancement; commitment to health and safety; performance culture; job environment; flexibility and autonomy; technical excellence; community involvement; reward recognition and benefits etc.

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During my 15 years in business I have concluded that the above factors are important, but are rendered meaningless without strong leadership. All the successful companies I have either worked in or been a supplier to have common strengths: a strong sense of self and a distinct culture and a values system that is embedded in the business and lived by its entire workforce (not just in the marketing material). These two characteristics can only be achieved through the sustained efforts of leaders.

Common traits of highly effective leaders are:

1. They are emotionally committed to the business and to its people;
2. They are great communicators, at times personal and always find opportunities for face-to-face communication;
3. They set the example by their own behaviour;
4. They encourage their team members to perform at their best; and
5. They value their team members and make them feel valuable.

Many business owners spend so much time working IN their business (see section above) that they have little time to devote to leadership and development of others, which means they are unable to create the pipeline of talent needed to grow their business, meaning they need to personally spend more time working in the business. As you can see, it's a vicious cycle and the stakes are too high to get this critical part of the equation wrong.

What People Plans have you got in place in your business? As a base line you should be able to check off the following:

- *A clearly defined culture and values that all employees understand and commit to.*
- *Development processes are in place to ensure we have the capability needed to deliver to clients and lead and manage the business.*
- *Individual performance plans that are clearly linked to business performance drivers.*
- *A clear idea of our employee value proposition – i.e. the total value we offer our employees (include rewards and recognition, benefits, opportunities, variety, freedom etc) and we communicate this openly.*
- *An understanding of where we source our best talent (i.e. competitors, parallel industries, particular schools/colleges), and strategies in place to identify and recruit top talent when we find it.*

For a business to thrive, to perform over and above its peers and industry benchmarks, employees must be engaged. You determine this by getting the people strategies right.