The Hornbeam Guide to Successfully Managing Your Small Business

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Successfully Managing Your Small Business

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Successfully Managing Your Small Business

Introduction

Do you feel ‘overworked and underpaid’?

This book is about giving you the skills to take control of your business and your life. Chapter 1 is called ‘how to sell for more’ and is all about finding ways to ensure that you never have to feel ‘underpaid’ again.

The rest of the book is about creating success. It is up to you to define what constitutes ‘success’ for you. Chapter 4 on Strategic Planning is specifically written to give you the tools to understand where you are, to decide for yourself where you want to go, and to work out how to get there.

This book is for managers of small businesses. Wherever possible I have taken the management tools that give big businesses their edge and made them accessible for small businesses. This book is about taking the best theory from the literature, the best practice from the most successful businesses, and explaining in plain English how they can be used by managers of small businesses. Pretty much every idea in this book is illustrated by examples from real life, most of them from small businesses.

I have split this book into 4 main themes.

- How to sell for more
- How to get paid quicker
- How to work smarter
- How to plan for success

These are the concerns of most small businesses. Before you go any further I want you to know some of the things I have not covered.

- I haven’t covered personality problems, family disputes or any of that massive subject.
- I haven’t covered ‘how to sell more’, marketing or advertising or sales psychology.
- Whilst I hope that anyone interested in business will find this book enjoyable, it really is aimed at small businesses and their advisers. There is not a single line in this book where I expect my readers to be market leaders or to have any prospect of ever becoming market leaders!

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Chapter 1. How to sell for more.

Tool 1. How to raise your selling price.

It is my experience that owners of small businesses tend to undercharge for their products and services and then don't know how to raise their selling prices.

Case Study 1.1.1
Dave decided to set up on his own as a plumber. He knew that his boss used to charge him out at £25 per hour. Dave used to earn £10 per hour. Dave wasn't very confident of attracting enough work in the first year or so, so he set his self-employed charge out rate at £18 per hour and he was sometimes a bit reluctant to charge for all the time spent on a particular job. After two years Dave was working 60 hours a week and yet his profits were not that much greater than his earnings when he was an employee.

Case Study 1.1.2
I had just finished reviewing Steve's accounts, which showed £150,000 turnover and £4,000 profit. Steve said ' I'm sure that it will be better this year, we have enough work for the next six months and I am having to turn work away'.

Case Study 1.1.3
Bill a decorator said 'I know I'm not making very much money, but if things turn down I have very loyal clients and I'll be Okay.

Case Study 1.1.4
Jim was also a decorator as it happens. 'Well' he said, 'my pension started up last year, I didn't particularly want to retire, the Missus doesn't want me around the house all day, I've got some customers going back 30 or 40 years that I don't want to let down, I've got my health and I enjoy what I do. So I thought I'll wind down a bit. What I'll do is I'll put up my prices 25% and the work will drop off. Well, I don't think anybody noticed. I've been as busy as ever. 1st year of retirement and I've earned more money than I've ever earned in my working life.'

This breaks my heart. Any businessman has to know what kind of market he is facing and to price accordingly. Does a plumber working 60 hours per week or a builder with 6 months of firm orders, need to hold his prices down to make sure he keeps winning orders? No. Indeed if he keeps winning work then the quality of service that he provides to his customers will decline, simply because the customers will have to wait so long.

Traders in this position have a brilliant opportunity. An increase in price will translate directly into additional income and that additional income will flow straight through to the bottom line (increased standard of living).

Case Study 1.1.5
Plumber working 60 hours per week charging £18 per hour

Sales	£18 x 60 =	£1,080
Costs	say	£480
Profit before tax		**£600**

Same Plumber working 60 hours per week charging £25 per hour.

Sales	£25 x 60 =	£1,500
Costs	say	£480
Profit before tax		**£1,020**

Or same Plumber working 40 hours per week charging £25 per hour

Sales	£25 x 40 =	£1,000
Costs	say	£360
Profit before tax		**£640**

So even reducing his hours worked by 1/3 will produce a better profit for this plumber, if he increases his hourly charge out rate as I recommend.

It is a simple truth that for most small businesses, if they are working at capacity (there are no more hours in the day) a price-rise will flow straight through to increased disposable income. Any price resistance that does occur will be felt

- first in a reduced order book (which will allow you to improve your quality of service.)
- secondly, you may be able to get by on working a few less hours (and that wont be a bad thing, will it?!)
- thirdly, the customers least willing to pay your additional charges are usually the ones who don't like paying anyway, they give you the most hassle on and after the job and take forever to pay (good riddance to them).

Still many clients are not convinced and end up turning work away or letting good customers down rather than raising their prices. Here is what to do.

There are always some jobs, some customers, or some products that you don't much like anyway. Next time you get an enquiry don't turn it away, and don't put in your usual low price. Instead put 20% (or whatever) on the price. If you get the job anyway at least you will make some real money. If you get the job, then you can try the same thing again, and again. With your confidence raised try a similar increase on the price of jobs that you do want and an even greater increase on the price of jobs that you don't want. Roll out the price increases across all parts of the business that will stand them.

Very soon you will be making bucket loads more money!

What about if you only have a few customers and you don't want to antagonise any of them?

Explain to the buyer that 'you have a full order book at the moment. You don't want to let them down by declining to quote, because they are such valued clients, so you will put in a less competitive quote for this particular job, but if they can't find anybody else you will still find time to fit them in'. Of course if you get the job anyway you still have a full order book and you have established the precedent of the higher price! If you don't get the job then go back to your old price, all this has done is shortened your order backlog.

Case study 1.1.6
I was asked by David to review his unsatisfactory profitability. To summarise: his costs were about £8 per unit. About 2/3 of his output went to the public sector at £12 per unit and 1/3 went to the private sector at £8 per unit!

Thus the 60,000 units sold to the public sector for £720,000 produced all of the £240,000 gross profit. The 30,000 units sold to the private sector for £240,000 generated no profit at all and as they cost real money to manage this sector was actually a drain on the business, which was generating about **£40,000** profit.

I recommended that the price to the private sector be raised to £12 per unit immediately. Even sales lost would increase profits! Dave was unwilling to lose 1/3 of his business overnight. However he agreed that the price to new customers would be £12 per unit. After 10 weeks nearly all the new customers had accepted the £12 price, so the existing customer base was informed of the new price per unit. Only about 5% of the existing customers were lost, a figure that was quickly absorbed by this growing business.

So after the consultancy Dave's business was still selling 90,000 units but at £1,080,000 it was producing £360,000 gross profit and **£160,000** of net profit!

This system can be applied to retail outlets as well.

Case study 1.1.7
Jill runs a successful café. She has limited space and always has people waiting at lunch time. After a business review we recommended that the price of coffee which is the main product line (especially at times other than lunch) needs to remain competitive, but the demand for the excellent lunches allowed food prices to be pushed up 20%.

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Tool 2. The 'bolt on'

What if you can't raise your prices? What if you are nowhere near capacity and thereis a low price competitor round the corner?

Well obviously you are going to have to have competitive prices in your business, aren't you?

Case study 1.2.1
Have you ever wondered why the sales-staff in big electrical retailers are so keen to sell you warranties? Well you only have to speak to an electrical retailer to find out why. Price competition is so ferocious that few such retailers can make any real money out of selling you a television or washing machine. So they find other ways.

Your £200 television probably only makes £20 for the retailer, but if he sells you a warranty for a further £100 he probably makes £30 commission, and he lays off his responsibility for the performance of the TV onto the warranty provider. Instead of a £20 deal it is a £50 deal and a better deal at that!

Your £400 washing machine may be worth £60 to the retailer. Not much profit if he has got to deliver it and install it! That's why once you have chosen the machine they ask you if you want it delivered…that's £15…and installed… another £15…and the old machine taken away…another £15. That's £45 extra value for the retailer – for doing what you expected him to do anyway!

The bolt on is the chosen route to profits for many fiercely competitive industries

- package holiday companies compete so fiercely on price that they rarely make any money out of the flight and accommodation. They must persuade you to join their excursions in order to make any profit.
- Shoe shops try to sell you their 'recommended' polish at 5 times the price in the supermarket, with every pair of shoes.
- Cinemas make enormous margins on pop-corn and soft drinks which often cost more than the original tickets.

I find that many small businesses are reluctant to design add-ons and implement procedures to sell them. But the best-managed of your competitors are probably doing it, and it is helping them to make a good profit whilst advertising fiercely competitive headline prices.

Case study 1.2.2
Jo runs a pet shop. She used to offer free delivery. This service was mostly called upon for bulky items such as sacks of dog food or bales of straw. Guess what? There is very little profit in selling sacks of dog food or bales of straw, not enough to cover the cost of delivery. We suggested putting a £5 charge on delivery. Not just to raise more money, but to save costs by discouraging customers from utilising a 'free' service that is expensive to provide.
Case study 1.2.3

For a hairdresser it is easier to cut wet hair.
My hairdresser has his 16 year old daughter in on a Saturday morning. To help him with phonecalls, bookings, taking money and sweeping up. I would enjoy having my hair washed before I have it cut even if he did it, but of course the 16 year old washes hair. It costs him virtually nothing, it makes his job easier…so how come I pay twice as much?.....

< Authors Note: I am telling you this story as an example of how a simple low cost add-on can increase the value of your services – no other reason. >

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Tool 3 'Up-selling'

If you have you ever been into MacDonalds, you have probably been the unwitting target of a slick system of 'up-selling'. The teenager at the till says 'would you like to go large sir' and for an extra 60p or whatever, you get a larger cup of crushed ice and a few extra French Fries.

You don't have to like the product, but you do have to learn from the system that enables this firm to squeeze a little extra profit from each transaction.

'Up selling' can be the system that enables you to exploit the opportunities provided by 'add-ons', but you don't have to have 'add-ons' to utilise 'up selling'. You can simply stratify your product or service, you then advertise 'prices from…'. When you get an inquiry you then follow a sales procedure to identify additional requirements from the customer.

> Case study 1.3.1
> Customer: 'Cod and chips twice please'.
> Fish and Chip Shop owner: 'Are they small Cod or large Cod?'
> *<Authors note: nobody wants a small Cod?>*
> Customer: 'Large Cod please'
> Fish and Chip Shop owner: 'small chips or large chips?'
> *<Authors note: Are you man or mouse?>*
> Customer: 'Large chips please'
> *<Authors note: Up-selling in action!>*

Can you sit down and design an 'Up selling' script for your business?

Case study 1.3.2
Potential Customer: 'I'm interested in your RCAB1 computer that I saw advertised for £300 in the paper at the weekend'.
Trained Salesperson: 'Certainly sir we have those in stock and can guarantee dispatch within 24 hours. Before I take any details sir, so that I can ensure that I dispatch exactly the right package for you, may I ask what you intend to use the computer for.'
Potential Customer: 'I'm not sure'.
Trained Salesperson: No worries, are you likely to want to use the internet
Potential Customer: 'I guess so'.
Trained Salesperson: I'd better ensure that your machine includes a state of art SD modem at just £30 then hadn't I. Would you also like to buy our recommended RO1 anti virus system to protect you from viruses that come in over the internet and can ruin your computer, it's on special offer this month at £35 per licence.
Potential Customer: 'I guess so'
Trained Salesperson: 'Now are you likely to want to play any games on your computer'
Potential Customer: Yeah!
Trained Salesperson: 'Well the RCAB1 has won awards as a games machine but you want really good graphics to get the best out of games software, so we recommend that you upgrade to a GMGC1 graphics card and a ME1 processor. They are only an extra £40 for both of them… Now, will you be wanting to print any letters, or spreadsheets?'
Potential Customer: 'I'm not sure'
Trained Salesperson: 'Well how about images from the internet (pause) or your own digital camera?
Potential customer: 'Yeah, I expect so.'
Trained Salesperson: 'Do you already have a colour printer.'
Potential customer: 'No.'
Trained Salesperson: 'In that case sir I would recommend……

25 minutes later

Trained salesperson: 'Right sir with all the enhancements *you have requested* that is £950 for the hardware, the software, and the attachments. Our customisation and setting up is free of charge where the total order exceeds £1,200. So if you agree to buy one of our enhanced three year warranties for just £320 that will bring you inside the threshold'. Will sir be paying by credit card?

<Authors note: *Why can't you do that?*>

or how about this use of a much underrated sales force

Case Study 1.3.3

Customer rings up Alpha Maintenance Company because their forklift (or lorry or computer or any other piece of complex plant.) is broken down; the customer is distressed because this piece of plant is essential to their business operation.

The sales trained and incentivised engineer arrives at the customer's premises and makes a careful inspection of the machine. He enquires what the machine is being used for. In his honest opinion this is not the right machine for the job.

He visits the customer's production director and explains what has failed and why and what actions he can take to rectify the machine. He sets out a likely cost. Then he explains that because the machine is old/the wrong model for the application, his belief that it will keep failing from now on, costing lots to repair and disrupting the clients business. He then uses his considerable technical expertise to explain why a new model would be ideal for the customer's requirements. He then offers to ring up to find out what is the delivery on the new model. Yes, one can be on site by the end of the day…24 hours before the old model might be repaired. Would the client like to try the new model. The mechanic arranges delivery and for the old model to be shipped back to the workshop at the same time.

The Mechanic doesn't know the price on the new model, but the sales manager is a good bloke who will give him a good price on the trade in and has access to some really competitive finance deals.

<Authors note: and doesn't the sales manager love this engineer, the customer has more or less lost control of his machine and accepted the replacement. The engineer has placed the machine for good technical reasons and doesn't even know the price. The customer trusts the engineer's judgement as he would never trust a salesman.>

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Tool 4 'Value-selling'

The point of value selling is to exploit the opportunity that occurs when a job is worth far more to the buyer than the cost of delivering it is to the service provider.

Case study 1.4.1
A customer brings his brand new car into a bodyshop and shows the mechanic the large dent in the front wing. 'How much to sort that out mate?'. The mechanic scratches his head, looks in the bonnet, sights up the dent from various angles. 'I'll say £120' he says. The customer asks 'when can you fit it in?' The mechanic disappears and comes back not with his diary but with a block of wood and a mallet. One tap and the dent springs out. The car is as good as new. There is something of a disagreement over payment of the £120!

<Authors comments: The selling was good, wasn't it? The careful time-consuming investigation of the dent built up the customer's expectation of a substantial bill. The value selling was good too. The mechanic correctly assessed the customer's willingness to pay to have his car returned to its pristine condition. The mistake was in spoiling the magic. The mechanic should have returned with his diary and promised to do the repair later in the day and have it ready for tomorrow lunchtime. Then there would have been no quarrel over the bill.>

Case study 1.4.2
2am. Customer (by Phone): 'Is that 24.7 Plumbing Services?'
Plumber: 'Ye…..(stifling a yawn)'
Customer: 'I've got water pouring through my Kitchen ceiling, can you come now.'
Plumber: (Awake now) 'You know there is a minimum charge of £120 after 7pm?'
Customer: 'No problem, please come.'
Plumber: 'You know I probably wont be able to do a full repair tonight don't you, just cut off the water.'
Customer: 'Yeah, whatever.'
Plumber: 'Where are you?.

Half an hour later

Plumbers wife: 'Did it go all right?'
Plumber: 'Took a couple of minutes to find the stop-cock, took her longer than that to find her credit card! Nasty mess though, big job for Fred tomorrow'

<Authors comments: Okay we all hate this plumber….except the woman on the telephone who needs help at 2am. At any cost! She probably doesn't mind paying the £120 when the flow of water from the burst pipe into her pristine house has just been stopped either. She may feel ripped-off later, but our plumber takes his credit card machine with him and has already secured payment.>

There is an important lesson here. **The value of your work is greatest when you have just delivered or over-delivered what you contracted for to the customer**.

This is when you should seek payment. There is clearly an exception to this, which is when your client needs your services urgently. In this case the value to the customer is greatest before you deliver the service.

Case study 1.4.3
There was once a little town in Germany called Hamlin and it had the worst infestation of rats the world has ever seen……

<Authors note: A fairy tale about value selling!>

Case study 1.4.4
4.55pm. Engineer (by telephone). 'Oh hi Eddy it's Bill at Megawatt Power Station here, have you got a couple of VI16mm bolts in stock.'
Eddy: 'Sure, I'll get them over on the van tomorrow morning.'
Engineer: 'Err, can I have them now.'
Eddy: 'Bill! I close in two minutes and it's my daughter's birthday.'
Engineer: 'You haven't got a daughter.'
Eddy: 'So tomorrow Okay then.'
Engineer: 'How much to stay open till I get a taxi over to you.'
Eddy: 'No can do. I tell you what, I'll drop them over to you personally on my way home. That'll be £50 delivery.'
Engineer: 'You bloody highwayman.'
Eddy. 'That'll be another £50 for swearing at me.'
Engineer: 'Just get them here.'
Eddy: 'See you in half an hour'

Rings off

Eddy (to himself) 'Those £1.50 bolts hold the turbines down to their footings don't they Bill, you've got a power-station off line, costing you £1,000 per minute haven't you Bill.'

Value selling applies in two particular situations,

- Where the client need is urgent, or
- Where the value involved is great

The second situation is where transactions have great value, if the customer is selling a house, or a business, or making a substantial loan or investment then an innocuous sounding low percentage

- Sales commission
- Conveyancing fee
- Agency fee

can make the provider a handsome profit.

In fact I have just realised how much banks (Arrangement fees on Loans) and the Government (Stamp Duty etc) have got into this!

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Tool 5 'Understanding Retailing'

More people set up small businesses as retailers than any other sector, sadly most don't last very long.

I'm not sure exactly which successful retailing entrepreneur said it, but there is a famous quotation

'Retailing isn't about selling it's about buying'

Like many pearls of wisdom there may well be more to this sound-bite than is first apparent. Let me give you my own pearl of wisdom.

'Retailing is a two stage process, first you have to attract the customer in, secondly, you have to ensure that they leave with a lighter wallet.

So to attract the customers in you have to have attractive stuff, attractively displayed. To make sure that they go out with a lighter wallet you have to ensure that you can supply what they want.

Some crucial lessons to draw from this.

- You have to have attractive stock to attract them in – you have to buy well. You have to have what they want if you are going to make sure that they buy from you – you have to buy well. So 'buying' isn't just about price it is also (mainly?) about having the right products to sell.
- To attract people in you need lots of product in a nice environment (go look round your nearest mall – that's what a retailer should look like, clean and bright stacked to the gunwales with merchandise.) To get people to buy, you have to have what they want. In short you can't do successful retailing on the cheap. You have to have sufficient capital to make the premises look right and then to fill them with products that people want to buy.

Taking this last point further, its no good filling your shop with cheap goods on low margins either. If you are going to do well at retailing you need to have some really good, really expensive products in your shop

- You will sell some and make good money doing so.
- They put the prices of your mainstream products into a context in which the prices look extremely reasonable.

Case study 1.5.1. A tale of two retailers.
I have two clients in nearby towns who are traditional electrical retailers.

Mick who has a large clean bright shop in a good position. I was discussing with him how effective is the technique used by a large retailer, whereby they put the massive plasma screen televisions at the front of their display. At about £5,000 for a television! By the time one has worked ones way to the display of standard widescreen televisions at anything from £250 to £1000, paying £500 for a television doesn't seem too much! Even though this warehouse sized store has a good range of televisions at under £100 – at the back of the display. The Next time I saw Mick his TV display was swamped by a £3,500 plasma screen TV and he had sold two in the last month, for a decent mark up too.

Ian had a small store, which always seems to have a notable amount of empty shelves. He isn't doing very well and resents spending money he doesn't have on stock. I told him the story of the Plasma screen TVs and he simply responded that there isn't that kind of money amongst his customers. Actually the area around his shop has a high proportion of wealthy households, many of whom will be buying plasma screen TVs, perhaps travelling to Mick's shop to buy them!

<Authors note: the moral of this story is simple, successful retailing requires capital. All the successful retailers in my portfolio have enough capital to provide the stock and décor that the business needs.>

There is a lot more to retailing than just having plenty of stock to satisfy potential customers, but this isn't the place to go into them. I'm going to restrict myself to a few bullet points.

- Go and look at what the best retailers in your business are doing and copy them.
- Find out what the customers want and what worries them – respond

Case study 1.5.2
Ford did some research on what its customers liked and didn't like about it main dealer network. Now you could probably have told them this, but what they found customers didn't like was handing over the keys to a girl in a business suit in the morning and getting them back from the same girl in the evening with no real assurance as to what had happened in between. Ford introduced the practice of getting the girl in the smart suit to go through a detailed list of actions taken by the engineer. They found that this improved customer satisfaction hugely and reduced customer resistance to charges.

I advise all my garage owning clients to apply this too. To get the mechanic to explain to the customer everything he has done.

<Authors note: at least three points in this story, (1) good customer research applied to day to day practices pays dividends, (2) small retailers can learn from big retailers, (3) this is a kind of up-selling, isn't it – getting the customer to value what you have done.>

- Develop special offers as a hook to get customers in.
- Pay attention to the visual appeal of the place, throw out spoiled goods, do not leave empty spaces on shelves.
- Free demonstrations or training are always popular.
- Use any of: tool 1, tool 2, tool3, tool 4, all are applicable to retailing
- Price is important, pay attention to buying prices. can you get a better deal by joining a buying group?
- Location is really, really important in retailing. The reason that empty shop on a quite estate is available for a very low rent is simple, virtually nobody knows the shop is there, there is negligible passing trade. Don't kid yourself, people will not come to you. You need to open where the shoppers are….(Okay, there are exceptions, but in twentyfive years of advising small clients I can only think of one that built up a successful retail business in a bad location…one!)
- Make sure you have some expensive products available for your customers as well as some 'competitively priced' products.

Good luck!

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Tool 6 'Direct Selling'

Whilst there are many small businesses in the retail market, there are far more small businesses in sectors where each sale has to be 'pitched' to a potential client. This might apply for example to construction, consultancy, financial services, business services…. In fact, many of the most dynamic sectors of the economy where small businesses operate. It is therefore essential for small businesses to learn how to make a sales pitch.

To make a successful sale

1. Plan the meeting (write out 'must have items' and 'negotiable items', write out a script, anticipate problems).
2. Take an interest in the customer – befriend him (read 'how to win friends and influence people' by……………)
3. Listen (to what the customer wants).
4. Explain how your product fulfils the customer's requirements exactly (remember case study 1.3.2) Encourage the customer to set their own requirements.
5. Find out what the customer's fears are and make sure these are resolved.

Case study 1.6.1 For example the customer might have a (justifiable) fear that from the moment he signs the contract he will never see the salesman again. So the salesman gives him a business card and in front of the customer writes out his mobile and home numbers on the back of the card – clearly committing himself to continue his personal availability to the customer – and removing the customers fear.

6. Explain the possible adverse consequences of not buying this product (this is called fear-selling). A couple of examples might be

Case study 1.6.2 Financial Adviser: 'So we have established that if you have an accident or suffer a critical illness and cannot work there will be no income to support you, your wife, or your new child. ROLife have a very competitive product designed for exactly people like you..'

Case study 1.6.3 Computer salesman: 'So you are considering a TAT computer are you. Well let me warn you that in a recent industry survey TAT had the lowest customer satisfaction of any make. Sure they price them a lot cheaper than our models, all I can say is *they know their value don't they*!'

7. Don't be afraid to close the sale. Make sure that your proposition is what the customer wants. Agree on a date of delivery. Confirm the price. – sale closed!

Tool 7 'Hype and Hubris'

I started this chapter telling small businesses how to escape from the low prices/long hours/little income trap. In this section, I want to explore the other extreme of the world of pricing….

We all know the first law of economics, namely that demand is inversely proportional to price. Or in our language lower price = more demand.

Economists long ago realised that not all products obey this law. The example most commonly cited is perfume. No woman wants to go out smelling of 'cheap' perfume. So retailers find it easier to sell scented water for quite substantial prices than for low prices.

I have come to the conclusion that this phenomenon has relevance to many more businesses than most economists realise….

When lots of middle managers were laid off in the 1990's many of them set up as 'management consultants'. Few of them made a go of it. It wasn't those who set up at £30 per hour who found clients, it was those who set up at £60 per hour. After all consultancy services are largely bought by managers of large public or private sector enterprises. They want their consultants to have a proven track record of success. They are not impressed by a consultant who turns up in an old car and offers a cut price service. The same mindset probably rules in the board rooms of the largest enterprises whenever they choose professional advisors. Thus the senior personnel of the largest firms of accountants, solicitors, and merchant banks (like management consultants) can charge more per hour than they pay their gardener per week. It is simply no good pitching for these kind of services on price.

Could this apply to your business??

I have a couple of clients who have made a success of consultancy, winning work from substantial public and private sector clients, but both got initial experience within large consultancy firms.

> Case study 1.7.1
> More interestingly, I recently had a young client set himself up as a gardener. He started off at more than twice what many established gardeners are charging, and he has increased his fees rapidly since. Basically, wealthy householders are prepared to pay well for garden designers, and by pricing himself appropriately this guy has obtained a good slice of this – much more lucrative – market.

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Tool 8 'Innovation and differentiation'

There are whole books written on innovation. How to boil that down into a few paragraphs…………

The theory has it that the first businesses into a market have an enormous economic advantage. With few (possibly no) competitors, and demand outstripping supply the innovator can charge a massive premium and (so the theory goes) make massive profits.

We are all familiar with this process in the field of electronic gadgetary. In my lifetime, CD players, Microwave ovens, Plasma Screen Televisions, IPods, mobile phones, wave after wave of game consuls, have been invented and released to market, only to see prices crash as production volumes overtake demand, and competitors create similar or better products.

The economic war between manufacturers of electronic goods is largely fought by huge corporations, there is little space for small business, except…………..

However innovation is not limited to the electronics goods market and innovators carve out successful niches in all sorts of places – especially places where established firms are not looking! Perhaps the best known phenomenon of the last decade was the proliferation of internet service providers, of which the dot com boom was only a small part. Thousands, perhaps millions, of internet businesses were spawned and whilst most have failed, a great many have been sold on to bigger businesses, and many successful businesses continue to innovate and prosper.

If you are still unconvinced that innovators are an important part of todays economy consider these firms which were innovative minnows within living memory: Microsoft, Intel, Cisco, Amazon…

But whilst new technologies offer small firms incredible opportunities to build whole new industries, so do other factors, such as social changes or changes in regulation. Several of the richest individuals in Britain have made their fortunes by privatising run down state industries (the Mittals in Steel, Abravonich and others in Russian oil and minerals).

Alongside the hype about innovation is hype about 'differentiation'. The theory goes that by 'differentiating our products or services from those of the competition we can 'lock out' competitors and charge a premium for our services.

Perhaps the most successful practitioners of this art that spring to mind are BMW, whose excellent cars and outstanding advertising allow that company to obtain consistent premiums over competitors. Toyota have attempted to replicate the BMW strategy by creating a whole new brand – Lexus.

The enthusiasm of many consultants and business academics for innovation and differentiation seems to have blinded them to the limits of these strategies. Untold millions of £ of management time, consultancy, training and advertising have failed to produce much sustainable differentiation between say

- High street banks
- Supermarkets
- Petrol Retailers
- Big Firms of Accountants.
- Etc. etc.

So if you are a plumber, a baker, or a bricklayer (for example), I would not expend much energy worrying about innovation or differentiation.

However, innovation and differentiation strategies can provide the opportunity for small businesses to make exceptional profits / to grow / to sell for more.

> Case study 1.8.1
> Don't forget that Microsoft were a small businesses a few years ago when IBM asked them to provide an operating system for their new (soon to become industry standard) personal computers, By making their products industry standard, and thus 'locking out' competitors, Microsoft have been able to become one of the world's most successful companies within one generation.

I have clients who

> Case study 1.8.2
> Chris has grown substantial businesses from start up by developing new technologies on the cutting edges of printing and materials technology. Clients in the electronics, automobile, health diagnostics industries have found that Chris is prepared to work with them to develop solutions to their requirements as they develop products on the cutting edge of technology.
> < Authors note: whilst margins can be high and demand is extraordinary, this is not a particularly comfortable environment for a small business. >

> Case study 1.8.3
> Nick set up businesses outsourcing to the public sector, meeting changing needs of public policy before larger businesses get the sector tied up. (the bureaucrats can't ask for a proven track record when nobody has a track record.) As is often the case with stories of innovation, this particular story could not be replicated. To bid for this public sector work now requires the company to demonstrate a track record, not just of delivery, but also of commitment to training, health and safety etc, etc. In this way the sector has effectively locked out new entrants (probably in spite of public policy rather than by design.)

Case study 1.8.4
Whilst other businesses complain loudly about tighter health and safety regulation Jo has built up a successful businesses providing health and safety consultancy.

Case study 1.8.5
Chemical refineries have one overriding concern – for them health and safety is the overriding matter to get right. Consequently when employing building contractors they are looking for firms with an impeccable record and a positive attitude to site safety and (of course the safety of the product – the refinery). Consequently, most competitors are locked out, and specialist suppliers can earn a handsome premium by working with the refinery management to maintain a record of zero incidents.

Changes in technology or legislation are rarely welcomed by established businesses

- no established manufacturer of cleaners would take up James Dyson's machine forcing him to go it alone
- similarly, it was a Scottish bank that supported Direct Line that revolutionised the sale of motor and domestic insurance products.
- and it was an insurance company (Prudential) which created Egg, the first internet banking service in the UK.

The established player inevitably have a huge investment in the existing technology which they are very reluctant (unable) to abandon. However, in all the cases cited above the existing players have moved fairly quickly to adopt the technology of the upstart competitors.

Today, most large and well run companies are on the look out for

- new technologies,
- changes in legislation, or
- changes in demand from customers,

that will allow them to obtain an advantage over their competitors – or at least to protect their business from competitors.

Small businesses can still get in 'under the radar' of their larger competitors…and we should all be looking for opportunities to do so.

Many of the cases cited here involve a tie up with a large corporate partner. These guys provide capital, marketing reach, management expertise, credibility…choice of corporate partner can make or break a project.

To continue success after the first phase of innovation usually requires some form of differentiation or more ruthless 'lock out' to prevent competitors destroying profitability. Typical examples of 'lock out' are

- 'Encouraging' end users to specify your product – or specifications which only your product can meet – in some cases working with clients when they draw up specifications.
- Patent restrictions (Dyson, Intel, Pharmaceuticals)
- Branding (brand advertising)

- Creating or exaggerating concern about the quality, reliability, or safety of competitor’s products.
- By getting in first innovators may create sufficient volume to slash prices and thus make the market very difficult for competitors with smaller volumes.
- Buying up and closing down or integrating competitors.
- By continuing to innovate, perhaps adding new and profitable enhancements to the original product as core prices fall.

Small businesses may be able to ride on the back of larger businesses by negotiating ‘sole distributor’ or ‘value added supplier’ status, locking out competitors in a particular territory in exchange for certain commitments.

Case study 1.8.6
Jo has created a successful business in vehicle parts wholesaling in spite of ferocious competition because he handles all the warranty claims for certain key German parts manufacturers in his territory. It is quite a lot of hassle, but ensures a constant flow of reasonably profitable work.

Innovation and Differentiation is just one of the 8 tools I have provided in this first chapter – How to Sell for More. It will not apply to many small businesses, don’t worry about that. But for some, especially the most ambitious, a systematic approach to innovation and differentiation is simply the best way to sell for more.

Case study 1.8.7
My clients sell, hire and maintain forklifts. I had the pleasure of visiting their finance suppliers. Now money is just about the most commodity product there is. £10,000 borrowed from one high street bank is pretty much the same as £10,000 borrowed from another high street bank. And yet this firm have an astonishing proportion of all the forklift finance deals in the UK. How? Very simply they have leveraged a really detailed knowledge of the industry, offering a product (basically HP with added maintenance) specifically tailored to the industry, and rapid underwriting decisions. They supply free software which enables dealers to hone price, length of contract, and residual value to meet customer requirements. They offer dealers free support with credit checks before the deal is done. No one else offers this level of service and expertise and because these guys have so much of the market, no one else will easily break in. By tying in with a large continental bank the company are able to offer competitive rates as well, which just about completes the ‘lock out’ of competitors and ensures a business of about a dozen people has about as unassailable hold on its niche market as it is possible to get.
< Authors Note: Note that the innovation, a special kind of finance agreement including maintenance is not at all difficult for competitors to replicate. ‘Lock out’ is achieved by exceptional customer services, high market share (in the niche), competitive prices (feasible with high volumes) **etc**. >

Successfully Managing Your Small Business
Chapter 1. How to sell for more

Résumé.

There are lots of tools in this chapter. If you are using them all successfully you are probably already the most profitable business in your area anyway! If not then what you must do is this

1. Go and get a pad of writing paper
2. Re read the chapter and for every tool write down at least three ways you could apply it to your business (well try anyway.)
3. Choose the three ideas that you like best and work them up into a plan of action. Set yourself solid objectives and a timetable – for example.

Case study – Jo Bloggs: Action Plan

- By end of month: load at least one problem customer's quotation by 25%
- By end of next month: load at least 3 problem customers quotations by 25%, explain to main client that at least one tender is 'not really our thing' or 'very difficult to do in the time available' and that I am quoting so as not to 'leave you in the lurch', but that I realise I probably wont win 'this particular job'.
- Review the out comes of these tentative market testers. Can a wider campaign of price rises be rolled out? Did I still get jobs I didn't want so that I should load them even further? Did I lose all of the market testing quotes so that I need to try out some market testers with lower loading?

- Tomorrow: design an 'Extras' contract which the men will get signed every time they are asked to do additional work on site.

- Next week, have a meeting with the men. Ensure that they all understand the importance of getting the new 'Extras' form signed before they agree to do any additional work on site. Ensure they all understand the importance of the extras form.

Etc.

4. Design and publish forms where you need them.
5. Write out sales scripts and procedures where you need them.
6. Train all relevant employees
7. Keep a notebook of successes and failures and revise your plans accordingly.

Bear in mind that customers don't like to be ripped off. You will not get repeat business if customers feel ripped-off, no one likes hard sell. So carefully tailor your techniques to make sure that you keep your customers on board. Make sure that your service is superb; make your customers feel special. But don't let the fear of upsetting customers allow you to retreat into your bunker, where you do nothing, the customers are laughing at you, and you stay poor! I've shown you how to get out of the bunker and you have no excuse for staying there!

If all that is a bit heavy for you how about playing a little game: Think of any successful business or businessman. Ask yourself which of tools 1 to 8 you know that they apply, and which tools you suspect they apply!

This chapter is all about selling **for** more. It is not about selling more stuff. If your strategy is to grow your business, then I hope that much of what I have written will be useful to you. But reality is defined by mathematics, and mathematics tell anyone who will listen that '**if you sell the same amount of product for more money then all that extra money goes into your income. If you sell more stuff then the chances are that most of that extra money will go to suppliers (including suppliers of additional overheads) and staff, leaving relatively little for you.**

Remember the sound bite for this chapter, which is

'Sales are Vanity, Profit is Sanity'

Successfully Managing Your Small Business
Chapter 2. How to get paid quicker

The Big Picture.

If you have a retail outlet taking only cash, then you probably don't need to read this chapter. If on the other hand you bet the business every time you take on a large contract you really do need to think long and hard about securing payment. So as ever the first thing to do is to really understand the risks to your particular business and to act appropriately to minimise them.

The rest of this chapter is organised in the sequence of the credit cycle, to suggest measures that can be taken at every stage to minimise the risk to your business. I have assumed that you are selling to other businesses on credit.

The risks and costs of poor credit control are greater than many small-business people realise, so perhaps my first job is to spell these out to you.

Case study 2.1
First of all imagine a typical wholesaler, with sales of £100,000 per month, a gross profit of £10,000 per month and normal overheads of £5,000 per month. The resultant £5,000 per month profit is a very acceptable living.

Now imagine an identical business with poor credit control. Instead of 30 days / £100,000 debtors this business has 90 days / £300,000 of debtors. The cost of financing that extra £200,000 of debtors might be ½ of one percent per month (6% per year) if the business has enough assets and a friendly bank manager. This costs £1,000 per month and reduces the profit from £5,000 to £4,000 per month. But the chances are that the wholesaler can't borrow at 6%, instead he must borrow where he can, perhaps hold back payments to suppliers (and thus lose prompt payment discounts), the cost per month could easily rise to £2,000 per month.

But suppose in this industry about ½ % of average debtors go bad each month. They would owe the typical wholesaler £500 and that cost to him is included in his overhead. But the cost to the poor business is £1,500 per month, a full £1,000 per month more than the typical business.

Have you ever tried to run a business that is failing? This business with poor credit control is failing. £2,000 per month is not enough to support the owner and his family. Cash-flow monitoring, fending off calls from creditors, difficulties with obtaining supplies, all these things cost yet more money and lead to a spiral of declining moral and underperformance. My imaginary business with poor credit control would very probably collapse in due course.

I show in the above example that with the number of debts going bad consistent the cost will be far greater with poor credit control. But common sense suggests to me that if credit control is poor more debts will go bad. Not all bad debts are insolvencies.

- Some customers pack up and move away – if they are chased promptly they are more likely to be caught and collected from.

- Some bad debts arise from genuine disputes – if the disputes are resolved quickly they are more likely to result in payment.
- Surely customers who are unwilling or unable to pay are likely to gravitate to suppliers with poor credit systems, ensuring that these suppliers get more than their fair share of bad debts.

Hopefully you are by now fully convinced of the cost of poor credit systems and therefore the importance of good credit systems.

Successfully Managing Your Small Business
Chapter 2. How to get paid quicker

Stage 1 Avoiding Trouble.

The credit control cycle does not start with a chasing letter or a phone call, it does not even start with raising an invoice, the credit control cycle starts with selection and rejection of customers.

Case Study 2.2 The new salesman comes back with his first big order – for 5,000 widgets or whatever, not a bad price either. The widgets are quickly boxed up and delivered to the specified address. The order is matched to the delivery note and the invoice is raised. The salesman gets his commission and the owners take their wives out for a meal to celebrate About a month later the statement comes back, ‘not known at this address’. Authors note <how many times have I seen this little drama acted out?>

You wouldn’t give someone who rang you up because he found you on the internet £10,000 to look after would you? So why on earth do so many people give that same guy £10,000 worth of widgets?

Of course the answer is to have systems of credit checking and monitoring. Traditional advice is that no order would be accepted from a new customer without getting a credit check. I think that the reality is much more complex, there are lots of things that you can do.

Firstly, credit checks (which are available from a wide range of organisations) are often extremely difficult to understand, I get a steady trickle faxed in by my clients with requests for interpretation. Often potential customers are sole traders or small companies that have filed abbreviated accounts, and therefore the available financial information is pretty much none existent. Often the information that is available is many months out of date.

Some of the credit rating agencies will also seek supplier and bank references and will obtain information from other sources. They will perhaps offer a straightforward opinion of the creditworthiness of the potential customer. All I can do is suggest that you try out some reports.

There are other informal sources of information about potential customers and a good credit control manager will tap into these. Your supplier’s reps will be a wealth of knowledge about the industry, members of your trade association will be only too willing to tell you about which rogues to avoid, your salesmen and engineers will have a good idea about who is doing well and who to avoid. You can tap these sources before accepting a customer.

Basically, if you have doubts then you should consider these options

- Can I get payment up front?
- Can I get credit insurance for this deal?
- Can I get a guarantee from someone I trust?
- Can I restrict the amount of credit I give whilst I see how the account runs?

Considering each of these in detail:-

It is surprising how often **payment up front** can be demanded, and how rarely it is. It is an option for you if

- You don't much care whether you have the sale or not
- The customer hasn't got much choice where to go
- You perceive the risk to be greater than the profit from the sale.

Have you noticed how Hotels have started taking payment when you check-in rather than when you check-out. If you are a car dealer or a repair workshop you certainly will not let a new customer take the car away until he has paid up.

I think that as credit cards become ever more prevalent, so more and more suppliers will demand payment with order or upon delivery.

If your business involves a few large contracts rather than many small ones then the impact of a bad debt may be that it destroys the business rather than damages it. Avoiding rogue customers becomes essential, rather than just very important. An important route to consider is **credit insurance**. Whereas this was prohibitively expensive in the UK ten years ago, today the insurance companies are very good at what they do, and rates are acceptable.

Case study 2.3
I have a large contracting client that insures against bad debt. Basically the whole debtor book is insured, but the insurers have the option not to cover any particular would be customer. The insurers also offer my client a really good credit rating service, so that they can tell if there are going to be difficulties at a very early stage. Over the years very few potential customers have been rejected outright. One potential customer that was rejected by the insurer offered a particularly attractive and lucrative contract to my clients, so they decided to accept the contract, with partial payment up front, but uninsured. The exposure was not business critical but none the less it became the worst bad debt that my client has suffered since they started buying credit insurance.

Authors note <that is why insurance is cheaper now days, the insurers have become adept at spotting the bad risk.>

So to summarise, if you have a relatively small number of large contracts, then you should certainly be considering credit insurance. If you have a large number of small contracts then the insurer's costs and therefore their fees will be greater, and frankly your risk will be smaller. With a large number of small contracts you should be installing good credit control systems of your own.

Credit insurance may not be available for one off large contracts or the cost may be prohibitive in some cases. At the same time some customers may have terrible credit rating whilst to your certain knowledge their owners are extremely wealthy.

Case Study 2.4
As the Football Association found out very publicly and to their cost, the fact that your largest customer (ON Digital) has wealthy parents (Carlton and Granada) offers no protection if the customer folds.

The point here is that many well-organised businesses do obtain cross **guarantees**, and do avoid lots of potential bad debts in consequence (not the Football Association though). For example, few small companies will get a bank loan or obtain a property lease without cross guarantees from their directors. In certain contracting and export industries suppliers will simply not accept a contract without a bank-bond or letter-of-credit in place.

Case Study 2.5.
A word-of-warning on letters-of-credit. Although it is a few years since I have dealt with these, they are a minefield. The banks that underwrite them often require 8 or nine lots of documentation all to be perfect. Often the terms appear to include inconsistent clauses. Unsurprisingly, a very high proportion of letters-of-credit fail to secure payment for the exporter. So if you are coming to this for the first time, get experienced and expert help.

For your credit control system to be worth having, you must be prepared to refuse credit to potential customers who are not credit worthy. If you are prepared to refuse them credit then why not ask for a guarantee, if you know there is a credit-worthy parent company or owner in the background.

If you are concerned about what form of wording to use then I would say there are three options

- Use plain English, something like 'I Jo Bloggs undertake that if my business Blogg and Co Ltd fail to pay Honest Supplier Limited for any debt more than 90 days old, I will personally pay that debt'. The lawyers may despise it but such an agreement if signed will carry strong moral and legal authority.
- You could filch the legal terminology of a properly drafted cross guarantee; perhaps from the one you gave to your bank or landlord.
- Or if the value warrants the cost you could get your lawyer to draw up the document for you.

Finally, there is the option of **restricting the amount of credit** that you extend to a particular customer. This is feasible if you sell lots of small value items, or if a contract can be broken down into sufficiently small stage payments. It is a valuable way of restricting your exposure to credit risk. Most accountancy software packages include facilities to set up credit limits. The difficult bit is persuading your sales force to inform customers when they are on stop. The answer, as so often, is probably to agree a standard script. Something along the lines of

'Oh, no…., I can't take that order because our credit controller has put your account on hold, just a moment…………I guess your accounts department are not paying us within our thirty days contract terms. I tell you what, if you can personally make sure that a cheque is issued and posted to me today I will get this order released, but you must make your accounts guys understand that if they keep on holding up our payment we will not be able to keep supplying you'

If the 'problem' is a very large volume of business rather than slow payment by the customer then the sales person can ask the customer to supply latest accounts *'so that he can get the credit limit raised'*

Which brings me neatly to a point about existing customers. Although new customers inevitably carry more risk than established customers (there are inevitably a disproportionate number of bad guys in amongst the new customers), for most businesses established customers make up a far greater proportion of turnover and debtors than new customers. So whilst you are ruthlessly vetting potential new customers, don't forget to have periodic reviews of your existing customer base. I am prepared to bet that for at least half of the bad debts that you suffer, you would say that *you should have seen it coming.*

So have a look at the existing debtor book, are there established customers who are always late paying? Probably they are loads of trouble in other ways too. Review their credit worthiness and if you really shouldn't be dealing with them, close the account.

The last point I want to deal with is the inevitable tension between the sales department and credit control. The sales department will have slogans like 'the customer is always right'. They work hard to win business in a competitive environment.

But you need another stereotype to be understood in your organisation. The bastard who is posing as a customer, he is out to con your sales force and has no intention of paying or no ability to pay. No one in your organisation should think of this guy as a *Customer*, he is like the mugger who assaults you in the street or the burglar who breaks into your house and should be treated accordingly.

Make sure that your salesmen have the right attitude to this guy (no one likes being conned) and make sure that any incentive package includes a claw-back provision where a *sale* turns out to be a *bad debt.* When you are writing the claw-back provision don't forget that £100 of sales might be worth £25 of gross profit (or whatever), but £100 of bad debt costs your business £100 and some!

A Short Digression on Risk

As a society we appear pathetically unable to properly assess and react to risk. As businessmen you need to be good – really good – at assessing and reacting to risk.

Let us imagine two businesses both with £1,000,000 of turnover and £100,000 of profits. The first business has a negligible chance of suffering a bad debt in any one year lets say a 5% chance, but an average sized debt for this business is £200,000! The second business has a much higher probability of a bad debt occurring, in fact in a typical year 5 customers fail owing an average of £2,000 each.

Now if I do the maths,

- the risk to the first company is 5% x £200,000 = £10,000 per year.
- the risk to the second company is 5 x £2,000 = £10,000 per year.

This is superb nonsense isn't it? The point of the example is that risk is made up of two very different components

- probability of occurrence.
- impact of occurrence.

To compare risks by multiplying the two together to get a cost or other quantification of the risk overall is nonsense as demonstrated above.

What we should be doing is comparing the risks and costs of inaction with the risks and costs of action.

Taking the first business. The risk (probability) of an event is small but the consequences of an event are cataclysmic (terminal for this business).

Faced with the risk (even if small) of a cataclysmic event, the rational response is to seek solutions that nullify the cataclysmic event. Let me clarify this by looking at three possible responses.

1. The business might introduce a credit checking system that costs £1000 per year, that will halve the probability of a bad debt being suffered by the company. <On a costing basis this is fine, spending £1,000 saves £5,000, BUT, although this response reduces the likelihood of a cataclysmic event next year to 1 in 40, the probability of an event in the next decade is still one in four and you wouldn't really want to bet your house on this, would you?>
2. The business might set up a sinking fund putting aside say £10,000 per year against the evil day that a bad debt occurs. <Although there are all kind of problems with this they might be surmountable, making this a valid solution. Firstly would the sinking fund be allowed for tax – probably not. Secondly, what happens if the bad debt occurs in year two when only £20,000 has been set aside, maybe a back to back bank facility could be arranged to provide the other £180,000, but it would be costly to say the least, finally even if an event has occurred in year two there is still a 5% chance of a bad debt in year three and so on…>

Cont…

….cont.

3. Credit insurers are very good at this kind of thing, because of their excellent procedures they can reduce the risk of an event to 2.5% per year. They cover 80% of the net debt. (So their risk is £4,000 per year – and because they spread the risk around they can legitimately make this calculation) The cover is available to the firm at £6,000 per year. <the business has now replaced a £10,000 per year cost with an £7,000 per year cost (£6,000 premium plus £1,000 per year for the £40,000 not covered at 2.5% probability.) But it is not the cost that is the critical here, option 1 produces lower cost result, what is critical is that the business has found a way to nullify the potentially cataclysmic risk.>

Most of the decisions you will have to make will be made with both costs and probabilities unknowable, you will have to estimate them. The important thing is to compare the risks and costs of various actions or inactions and make rational choices

The second company faces a similar set of options

1. It can introduce a credit control system that costs £2000 per year. This system will reduce the number of incidents from 5 to 4 and the average cost per incident from £2,000 to £1,000. Total cost £6,000. Saving £4,000.
2. It can insure, costing £8,000 per year.
3. It can do nothing.

But this is a different set of options in a number of crucial ways.

- In this case doing nothing is a valid option, £10,000 of bad debts per year is well within the capacity of this business to absorb.
- Whilst the efficiency of the insurer in identifying and avoiding bad credit risks makes insurance a cheaper option than doing nothing it is the in-house option that is cheapest. This is because the larger volume of transactions creates a larger administrative cost for the insurer.
- There is negligible risk of a cataclysmic event, so comparison on pricing is valid and the business should go for the in-house option.

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Stage 2 Contract Terms.

There are a few matters of common sense that are enshrined in British law which need to be set out here. The terms of a contract are what is agreed between the parties. Ergo

- Neither party can introduce terms after the contract has been made.
- Neither party can enforce terms that were not agreed

So it is important to understand when a contract is made and what terms are included in that contract.

Usually under British law the contract is made when the seller accepts the buyer's offer. Therefore if you want to get any terms into your sales contract you have to do this before you ship the goods and before you raise an invoice. Typically then you need the customer to sign a standard order form. But your terms of trade should be on

- Your website
- Your publicity documents or proposal forms
- Your order document or contract

And just to be sure, because many customers will have been trading with you for a long time and presumably be aware of your standard terms if they are on

- Your invoices
- Your statements.

Okay. So what are these terms that you need to get into the contract?

(1) Payment terms

Perhaps the most important thing to get clear is the amount of credit you are extending to your customers. So you need to include a payment term such as '*payment is due within 30 days of invoicing.*' or more optimistically '*payment is due upon receipt of invoice.'*

This does two things, it clearly sets out your expectation of your customers and it gives your credit control system a firm base upon which to build.

(2) Reservation of title

The second thing that you may want to put into your contracts is a '*reservation of title*' clause. Under British common law when you deliver you order to the customer he owns the goods and owes you a debt. If the customer goes bust you have no right to recover the goods – even though you haven't been paid.

But if your terms of trade include the phrase '*title to goods shall not pass until payment is received in full*', then if the customer fails to pay, the goods are still yours and, if you can locate them, you can recover them. However, the courts will not allow you to recover goods if they have been incorporated into a greater whole. If you supply bricks you are not entitled to take down the defaulters house to get the bricks back, for example.

This term can make all the difference if your customer becomes subject to an insolvency procedure. The insolvency practitioner will be unable to take possession of the goods, selling them for the benefit of the bank or his own fees.

However this is the legal position, in practice you must move swiftly, firmly and confidently and take possession of the goods. It is not for nothing that we have a saying in this country 'possession is nine tenths of the law'.

(3) Restriction of Liability.
Your 3p screw might be holding together some crucial part of a power-station or a cruise-liner. The costs of failure could be astronomic, and quite out of proportion to the value of the item supplied. If the failure is traced to the component you supplied the customers lawyers might well come after you for the consequential loss of your products failure. You therefore want some clause along the lines of

'*All products are sold in good faith, if any product supplied by us fails to meet specification we will replace it immediately, free of charge. Customers must make their own assessment of the suitability of these products for any application, and therefore we do not accept liability for any consequential loss or similar cost arising from the use of these products*.'

(4) Other Terms
The above 3 terms are the critical ones for credit control purposes. There are lots of other terms that need to go into a properly drafted contract of sale (for example what is sold, delivery terms, detailed specification, sale price, date of contract, VAT details etc etc) but they are not the subject of this chapter.

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Stage 3 Payment Incentives.

This is a hotly disputed topic amongst the credit management community**.**

All systems seem to have drawbacks.

- Most obviously if you offer 5% discount for payment within 30 days for example this takes a big chunk out of your turnover and an even bigger chunk out of profits.
- But a second disadvantage with this system is that there is no ongoing pressure on customers who do not take advantage of the 30 day discount (ie the problem accounts)
- Thirdly are those annoying block of customers who pay on 45 days and take the discount anyway.
- Fourthly you are advertising prices that are 5% more than what you are actually achieving.

None-the-less this simple system of incentivising prompt payment is operated quite successfully by a great many companies.

A more sophisticated clause is to charge interest on balances over 60 days old. The lawyers believe that unreasonably high levels of interest (in other words those intended to penalise late payment) are not enforceable. It is notable that much tax legislation talks about 'economic restitution' rather than 'penalisation'. Claims in the county courts carry an interest rate of 8%. Interest on late paid tax is similarly charged at 8%. None-the-less I see no reason why a properly drafted clause requiring that customers who pay late pay compensation at 1% per month should not be enforceable.

I know of one professional firm whose contract terms provide for 2% per month, and this seems to keep most of their clients keen to pay on time!

Besides interest at 1% per month on accounts more than 60 days, you might also like to include a monthly administration charge also relating to accounts over 60 days of say £15 per month. On all accounts up to £1,500 the administration charge will be the larger amount and will provide a major incentive for customers to pay on time, and a major penalty for those who don't.

Best of all the interest and administration charge create an additional revenue stream for your business!

You 'sell' these terms to your customers by explaining that a small minority of customers have a disproportionate cost to you by not paying in accordance with your terms. It is therefore only fair that this small minority should pay for these costs…..

You enforce these terms by invoicing your clients for interest and administration costs relating to late payment, just like you invoice any other service you provide.

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Stage 4 Invoicing

It is surprising how many tradesmen complain of slow payment, cash flow problems, and lack of money, but systematically delay raising invoices.

> Case study 2.6
> I know of one local case where a plumber went to see his bank manager for a loan, the manager persuaded the plumber to go away and return later with his records and especially his diary. In a couple of hours the manager found over £10,000 of unbilled work!
>
> Authors note < I guess we all know at least one story like this, and personal experience suggests that it happens a lot >

I used to think that the only rational explanation for this was that tradesmen wanted to keep their turnover down to reduce their tax bill or to avoid VAT, perhaps they liked to keep a bit ‘up their sleeve’. I am now convinced that the real reason is that these guys don’t like doing paperwork, and that in consequence they lose large sums of money.

Well this is one extreme. Your objective is to be as close as you can get to the other.

- If you can get payment in advance so much the better.
- If you can get payment with delivery/completion that’s good too.
- If you can’t get payment with delivery/completion make sure that you issue the invoice straight away. Have you tried asking for payment with delivery?
- If the contract/service stretches over more than one month make sure that there is provision to bill monthly, and bill monthly.

Make sure your invoices

- Are addressed to the correct person. <If you invoice ‘Fred’ then Fred’s Engineering Services Ltd will be quite within their rights to ask for the invoice to be reissued in their correct name – delaying payment for another month!>
- Correctly and accurately identify the goods or services provided.
- Correctly identify the customer’s purchase order number, or other reference <large companies, in particular, will not pay a supplier invoice unless they can identify the purchase order.>
- Are correctly priced at the agreed price.

It’s no wonder tradesmen don’t like raising invoices, is it? But it is important to get these things right, get them wrong and your invoices will get held up in your customer’s system for dealing with disputed invoices. This not only delays payment but takes costly manpower to resolve. A good clerk might easily spend half an hour raising 20 invoices then the next half an hour trying to sort one dispute. So, like all the processes in your firm, you should aim to get it right the first time.

If your terms of payment are 'on receipt of invoice' the invoice should say so. If your terms of payment are '30 days from receipt of invoice' the invoice should say so. A good tip is that this important matter should not be pre-printed but should be included with the description of the goods.

Similarly, if your terms of trade include a prompt payment discount or interest on late payment this should be clearly stated on the invoice. Many of your customers will have systems to prioritise invoices that offer prompt payment discounts.

A Short Digression on 'The Numbers Game'

Much of this chapter is about a numbers game.

- If you collect your debts promptly you won't avoid bad debts but you will reduce both the number and the size of bad debt that you suffer. (see case study 2.1).
- If you restrict the credit available to individual customers you won't avoid bad debts but you will reduce the cost (and control your risk.)
- If you introduce an interest penalty for late payment, some customers will still take excess credit, and some will still go bust, but a proportion will pay more quickly (reducing your working capital cost) and some will pay the interest (increasing your income).
- If you use a good credit checking agency, and refuse credit to poor credit risks, you will not eliminate bad debts (or disputes) but you will avoid some bad debts.
- If you take the trouble to ensure that all of your invoices are clear and accurate you will not avoid all disputes but you will reduce the number of disputes.

In short, for most of you there is no golden bullet, but if you improve your performance in each area, you will achieve a percentage improvement in each area. These improvements taken together will add up to a big improvement. All of this can add up to quite a significant competitive advantage. This is what I consider to be the numbers game:

Lets say

- Improved collection reduces bad debt events 10% and size by 20%.
- Credit limits restrict size by 20% (but only 10% if the above enacted)
- A penalty regime restricts size by 20% (but only 5% if the above enacted)
- Credit Checking will avoid 20% of bad debts altogether
- Better invoice quality might reduce bad debts by 5% with or without the above

So if all the above are enacted in a business where bad debts cost £10,000 per year what is the saving.

The maths is

Saving = £10,000 - £10,000 x 90% x (80%-10%-5%) x 80% x 95%
= £5,554 or 55%

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Stage 5 Statements

I don't know about other people, but I resent sending out statements. Each month we spend a fortune in stationery, postage, and time sending out a mass of statements.

The trouble is many customers wait for the statement so that they can detach the remittance advice to send back with the cheque. Its another *****y excuse isn't it? 'I'm sorry we always pay on statement'.

Well I'm sorry too but there is no help for it. If you run a business to business business you will pretty well have to send statements, if you want to get paid.

There are two sensible reactions to this.

Firstly, if you can get your customers on direct debit you can do away with statements. Failing that your system of incentives and strict credit control will restrict the number of statements that you have to send out.

Secondly, as you have to send out the *****y things anyway, why not try to turn this to your advantage. Send out newsletters, promotional fliers, and special offers with your statements. Some of them will end up in the right hands. You can also consider putting invoices and or credit control letters in with the statements.

Enough said on that topic!

Stage 6 Collection Procedures.

Even though you have carried out credit checks, written watertight contract terms, offered attractive payment incentives, and sent out statements there will still be a fair percentage of customers who don't pay until they are chased. Some have genuine reasons, some are just holding off until they are chased, some don't want to pay at all, and some are short of money.

As with every stage of the credit control cycle, collection procedures are a numbers game. Any old calls will undoubtedly pull in some monies and thus are worthwhile, but a systematic approach will maximise the effectiveness of your chasing procedures. The rest of this chapter is about designing such a system.

In an ideal world, your first call would be made about a week after the debt becomes due and the script should be something like this.

'Could, I speak to Mr Badpayer please'……..
'Oh hello, I'm ringing from Jo Bloggs Widgets Ltd. I've been asked by Mr. Bigboss to find out if there is any reason why our invoice number 2345 is help up as it was due last Wednesday?'……… <This is a very polite opener designed to flush out whether there are any problems of the faulty goods/invoice not received/error on the invoice kind. If there are, then you must patiently straighten them out. No-one will pay you whilst you are in the wrong. If there are no real problems then:->
'Well our payment terms are strictly 30 days from month of invoice, and this is very important to us. Can I have your personal undertaking that this payment will be with us by……. For the future I think I should point out that

- *when your account goes 14 days overdue it is automatically put on stop*
- *if your account is not paid within 60 days of invoice we will charge interest at 1% per month, plus a monthly administration fee of £20.'*

Of course we don't live in an ideal world so many of us will be looking at improving procedures where a ledger already contains many old and difficult debts. Of course most effort should be focused at sorting out largest and oldest balances first – this is the subject of the next chapter

This first phone call will ensure that as a business you are picking up and sorting out problems quickly and that you are training your customers to pay in accordance with your terms. The problem for all credit controllers is what to do with the customers who still don't pay.

- Making repeated phone calls has some nuisance value, but is demoralising for you and undermines the credibility of your determination to obtain payment.
- Putting the customer 'on stop' stops the potential bad debt from growing, and escalates your response in a satisfying manner.

- Sending out a threatening letter at an early stage can be something of an overresponse.

So what good options do we have. Well if you do opt for a second phone call have two ambitions

1. Get to the top man. In bigger organisations in particular they hate this.
2. Arrange to have the cheque picked up, by your sales rep, your delivery driver, the trainee from the office or whoever. Again this humiliates the offending customer and trains them to prioritise paying your account.

If you opt to send a letter then again don't leave the matter open ended. Something along the following lines is perhaps appropriate.

> Dear Mr Badpayer,
>
> **Our invoice no 2345.**
>
> On 24 December I contacted you by phone concerning the above invoice. You assured me that there was no problem with the invoice and that you would check that payment had been despatched.
>
> Since that conversation I have left three separate messages on your answerphone/with your assistant but unfortunately have still not received payment. Accordingly I feel I have no option but to warn you that unless payment is received within 14 days I shall issue a County Court Summons. I remind you that a County Court Summons gives me the facility to add interest, court fees and professional fees to your outstanding balance. If I do not receive payment within 14 days I will add these costs to your debt.
>
> Yours sincerely
>
> Jo Bloggs.

The important things here are

- to set out that the debt is not disputed
- to set out the actions that you have taken to collect the debt
- to set out you intentions for further escalating the situation.

I allow myself one more stage before submitting a County Court Summons. Filling in the summons document, which can be obtained from the small claims court together with a very helpful booklet, is not that difficult. I have found several times that sending a fax to the customer with a copy of the completed form, saying very simply

> **Here is the completed County Court Summons, unless I receive payment in tomorrows post I will issue this to the court.**

Now my experience is that if a customer is going to pay they usually pay at this stage. If the County Court Summons becomes a County Court Judgement then it becomes a matter of public record, which damages the customer’s credit rating and credibility. If the Customer intends to resist the Summons it will take lots of management time and cost. The only good news is that a percentage of the Badpayers pay the total amount, including interest, professional fees, and court costs.

The final decision is whether to issue the summons which will mean spending yet more money on the court costs. Basically if you have threatened court but don’t go through with it you might as well write the debt off.

If you do go through with the Summons, it may be uncontested in which case it becomes a County Court Judgement. Or it may be contested in which case you will have to attend the Court to explain why the Customer should pay and to resist any counter arguments or counter claims. You may want to look for professional advice.

The courts will not collect the debt for you even if you obtain judgement. The court has to be seen as a machine, which you must drive. The court has numerous powers to help you obtain payment. If you want to do this yourself, then you need an appropriate course, or perhaps a book, to explain how the system works. Then with the help of guidance leaflets from the court you can use the machinery of the court to collect your debt, or at least to attempt to do so.

The alternative is to appoint a solicitor to do this for you. This may be effective if the debt is large enough to cover the cost or if you find an agent to do this for you.

Stage 7 The Problem Accounts.

Most of us have problem accounts. Somehow they slip through all our procedures and end up a large figure in the over 90 days column of our aged debtors report. Perhaps because they are a friend-of-the-owner's-wife, perhaps we accepted the risk on that customer in order to break into a new market, perhaps we have made a mistake. The questions for the rational businessman are

1. What can I do to sort it out?
2. What can I do to make sure it doesn't happen again?

The proceeding 6 stages should take care of the second question, the rest of this stage is about sorting out the mess.

In most cases it will pay to meet with the customer to try and hammer out a deal to sort things out. You will need to have some ideas for resolving the account, but when you actually get to the meeting try to sound the customer out before you start offering deals.

If the client is chronically short of money but there are no other 'issues' the most obvious solution, accepted by most credit controllers (and this is what you would get from the court anyway), is to set up a standing order or direct debit payment to clear the account. But you need to know how bad the problems are before you set the period and the amount.

> Incidentally Standing order are easy to set up, they are an instruction by the customer to his bank to pay you every month a set amount – you can get the form from any bank. Direct Debits are more difficult. They are a permission for your bank to take money from the customer's account. You have to obtain a Direct Debit facility, which involves your bank vouching for you and charging you lots of money – but perhaps less than it charges you to accept cheques.

Another solution which you may take a 'commercial decision' to implement may involve you writing off a proportion of the account in exchange for an immediate cash sum (make sure it is cash or bankers draft) and both parties agreeing in writing that this is full and final settlement of all disputes between them.

A third possible solution, which I have seen a few times, is that the debtor has taken ownership of the customer's business in exchange for foregoing his debts.

A variation on this is to take ownership of certain assets, rather than the whole business. The assets are then sold or utilised in order to clear the debt.

It is also important to sort out at this time whether you are going to continue supplying this customer, and if so, on what terms. In general I would think that if it has got to this stage the essence of any deal must be that your debt is reducing over time.

Stage 8 Outside Agencies.

There are loads of outside agencies keen to help you manage your debtors / cash flow. They fall into the following categories.

- Credit referencing agencies
- Credit Insurers
- Debt collection agents
- Factoring companies
- Confidential Invoice discounting by Banks

Credit Referencing Agencies will access a number of sources of information, published accounts, bank references, supplier references, records of CCJ's (County Court Judgements), records of past insolvencies and such like. The better agencies will present their findings in a pretty straightforward manner, but most will provide you with reams of data and no analysis. As an accountant, it is quite common for me to be asked by clients to interpret a credit reference.

Common problems are that accounts are filed late, abbreviated accounts have no detail at all, subsidiaries of large groups appear completely uncreditworthy.

None-the-less in these days of electronic media this information is relatively cheaply available, research on potential clients will provide you with data to justify asking for security, payment up front, or restricting credit.

Credit Insurers. As mentioned elsewhere in the text, these guys have become very good at identifying the bad risks, who they will not cover and you shouldn't be trading with anyway. Consequently insurance rates are now much more reasonable, and if you have small numbers of large contracts (i.e. a bad debt could destroy or seriously damage your business) then credit insurance should be given serious consideration.

As part of the deal these guys will offer excellent credit referencing.

Debt Collection Agents. If you ask the family solicitor to collect a debt for you he will almost certainly charge you for the time taken. This will probably end up being more than the debt, and certainly more than you can recover from the debtor. However there are lots of firms who are prepared to collect your debts for a small fixed fee (just for sending one or two standard letters) or for a percentage of the debt.

What these guys have to offer are standardised procedures, they are more intimidating than you are, they don't compromise and will not be fobbed off, and they know the system inside out.

Still, if you can get as far as issuing a County Court Summons under your own steam, do you need to share your income? Like all outsourcing you are weighing up

- the price (on one side) against

- the saving in your time and the improved quality of service on the other.

Note on Outsourcing
Improved efficiency and quality of service is by no means guaranteed by outsourcing, but this is what you should be looking for.

If the outsourcer has
- specialised systems
- cost reductions which can only be made with sufficient volumes
- expertise which is accumulated by specialisation

- then the chances are that its costs will be lower than you could ever hope for, and its quality of product and likelihood of a successful outcome is also higher than you are likely to achieve.

But, if the outsourcer
- will have to duplicate much of what you already do
- will have to handle large numbers of small value transactions

- then outsourcing is likely to be an expensive option

Factoring will seemingly solve two common problems of small businesses:-
1. By advancing 80% of the invoiced debt straight away the factoring company will solve the cash flow problem.
2. By handling the debt collection the factoring company take away that problem.

Unfortunately there are three major drawbacks:-
1. Firstly, because the factoring company must duplicate your sales ledger and handle your debt collection, the service is labour intensive and therefore expensive. For businesses generating many small invoices this may make factoring unrealistically expensive. Furthermore, because this is perceived as quite high risk lending by the banks, the rate of interest charged on the loans is usually quite high. Finally, most factoring companies have a minimum monthly charge. Small businesses whose volumes fall low enough to trigger this minimum pay a penal cost to the factoring company.
2. Secondly, most (conventional) factoring companies hand back uncollected debts to their customers after 120 days or so, and so take no responsibility for bad debts at all. Some companies do offer a combined service, taking responsibility for the debtors once they have approved them. This service does take away all of the collection problem from the client businesses, but it is an expensive option.
3. Lastly, because it is so expensive, factoring is often viewed as a measure of desperation by other businesses, such as customers, and thus factoring undermines the credibility of the company doing the factoring.

Confidential Invoice Discounting seeks to answer two of the three problems with Factoring. The bank does not collect the debts, you do. You send daily or weekly summaries of invoices raised to the bank. They advance the 80% loan to you. When the customer pays you, you pay the money into a trust account (the bank 'trusts' you to do this). Thus because you are doing the collecting your customers don't know that you have factored your debts (thus eliminating the third problem entirely) and the banks costs (and charges) are greatly reduced. Thus reducing my main objection.

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Resume.

The theme for this chapter is that it is all **a numbers game**. If you raise your game at each stage of the credit control cycle you will - over time - reduce your bad debts and improve your cash flow. If you raise your game at all stages of the credit control cycle the cumulative effect will be a substantial reduction in bad debts and a substantial improvement in cash flow, leading to a substantial improvement in your profits.

There is a related theme of risk, the need to understand the elements of risk and to institute procedures appropriate to the type of risks that you face.

The intention of this chapter is to give you the tools to make those improvements

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Preview: The big picture.

When Adam Smith wrote 'The Wealth of Nations' he set out how specialisation and use of equipment could increase productivity. The book established its Author as one of the great economic theorists of all time, and most of what is in the book remains as valid today as it did when he wrote it.

But the second half of the 20th Century has seen a second wave industrial revolution. The impact of this revolution upon world wide economic productivity has been at least as profound as the impact of the industrial revolution in the 19th Century. At the forefront of this revolution was the Japanese car industry. From virtually nothing in 1945 the industry grew to be the largest, and most successful manufacturing industry in the world. How was this achieved in just 40 years?

There are lots of books written, lots of names for the techniques used, but at its heart was a change in mindset. The Japanese management and engineers introduced an industry-wide mindset to **drive out error** from their manufacturing processes. Everyone in the industry from managers to production worker committed themselves to finding **error free ways of working**.

Those businesses which adopted these techniques gained a number of really substantial economic advantages over their competitors.

- As faults were driven out of the production process so labour costs were reduced, faults were not there to be rectified, jobs did not have to be redone.
- As faults reduced, so did the use of materials, there were less and less faulty components to be thrown out.
- Just as less labour and materials were required for manufacturing so less land was required. (It is said that at one time, half the space in British car factories was taken up by post-manufacture testing and rectification).
- Whilst zero tolerance to error during manufacture drove down all elements of cost, it also had a major advantage for the marketing department. The cars produced by these factories were extremely reliable. They were a better product than what had gone before.

The techniques adopted by the Japanese motor manufacturers were quickly adopted by leading edge businesses around the world. Although the impact has been greatest in manufacturing, all kinds of industries have adopted some of the techniques that I am about to set out for you.

Don't underestimate these techniques, they can produce massive gains in productivity and customer satisfaction for small businesses as much as large ones.

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Tool 1: How To Gain From Mistakes.

We all make mistakes, don't we? Lets not make a big issue of it.

But we are all working in a fiercely competitive economy and if we are to thrive, we need to put out products and services that are pretty much perfect every time. So we need to adopt systems, and procedures that drive out error. The first thing we, and all our staff, have to know is a procedure for dealing with a mistake or error when we find one. Here is that procedure.

Upon discovering an error

1. Put it right immediately, preferably before it finds its way out to the customer.
2. Find out what caused the error.
3. Find out if other errors have happened and gone undetected. If they have put them right immediately.
4. Design a way of working that ensures that an error like this simply cannot happen again.

I strongly suggest that you type this 'procedure' up. Get it laminated and ensure that every member of staff has a copy.

It is the last two stages that so often get neglected. If one error has been noticed and corrected, before you leave the problem you must find out whether any other identical problems have gone unnoticed. With computerisation and automation this is all too easy. Once you know how widespread an error is you can decide how to react to it. If the error carries potential cost or danger then it is better that customers hear about it from you, along with an offer to put it right, at your cost.

The last point is almost the most important. It is by designing error out of the way that you do things that you boost productivity. Clearly, systems of double-checking and paperwork do not boost productivity and these are not what I am talking about. It requires a change in mind-set to get away from checking and documenting, and to get into finding ways to get it right first-time every-time.

Case Study 3.1.1
What does the government do if it becomes aware of a major weakness in legislation or public services (or whatever) usually after some catastrophe (the error) which poses a significant threat to the Nation?

Usually they appoint a small but high-powered committee to head up a ‘public enquiry’. The terms of reference will almost always be to find out what went wrong and to recommend changes that will prevent such a thing happening again.

Authors note: <so this procedure to formally learn from a mistake and implement better systems as a result is not new, it is well understood to be an essential part of good governance>.

What is the relevance of all this to small businesses?

It is absolutely relevant.

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Tool 2: Taking it further, the six-sigma system, adapted.

Once again I'm going to bring the scale back down to that of small business after starting with one of the largest and most successful businesses in America. At one point GEC would not promote any manager who was not trained in the discipline known as six-sigma.

Basically the discipline of six-sigma is applicable to virtually any product or service. The six-sigma engineer must find out what are the criteria by which success of the product, service or process are judged. He must then measure the range of success and failure of the existing procedures in meeting those criteria. Then he must design improvements to the procedures to bring the error rate well within the tolerable margin.

Let me translate that into our sort of language.

The six-sigma engineer does not wait for a major error or mistake. Instead he looks for possible mistakes before they happen. When he has identified what is important he looks for ways to squeeze the opportunity-for-error out of the system.

This is best demonstrated by an example, which I have copied from a book I read some time ago and cannot now find in order to acknowledge.

Case study 3.2.1.
A six-sigma manager was given the task of improving the profitability of a chain of pizza restaurants. He found that in the high pressure environment of this pizza chain the traditional pizza ovens were not performing well. Some pizzas were staying in too long and getting burned. Customers would end up dissatisfied by any response to this problem, rejecting burnt pizza or being unhappy by being made to wait for a second pizza to cook. After looking at many different possible solutions the chain adopted a conveyor-belt pizza oven. This solution ensured that every pizza received exactly the optimum cooking time.

<Authors note: I like this example, firstly, because it has nothing to do with manufacturing and secondly because it is perfectly applicable to just the kind of small business that this book is written for>.

Case Study 3.2.2
For tomato growers the temperature of the poly-tunnels is critical. They all have automated systems which bring in hot or cold air to regulate the temperature.

A consultant was working with such a grower. There was no system for monitoring the actual temperature in the tunnels. A monitoring system was introduced and the information studied. This showed the fluctuations in one particular tunnel to be outside of the accepted tolerances. Further investigation showed production from that tunnel had been 10% below average for a long time. The faulty equipment was easily identified and replaced, immediately bringing that tunnel back up to the expected levels of productivity.

Case Study 3.2.3
A number of customer surveys have been undertaken by hotel groups to find out what customers really want, what they value. The survey results came back pretty conclusively. At the top were cleanliness, comfortable bed, and a peaceful night. Near the bottom were facilities such as bars, clubs, pools and so on. Particularly disliked was queuing for check-out at the start of a busy day. This has led to some completely new chains of hotels being developed, majoring upon cleanliness, quietness and comfort, but with most facilities stripped out (they are usually built near to restaurants etc), these hotels are able to offer a low price alternative to the more traditional system and are proving very popular.

They almost always ask for customer feedback.

<Authors note: There is the six sigma system all over this story. First the companies found out what is important to the customers. Secondly they have built new accommodation specifically designing in those features valued by customers

- They are easy to keep clean
- They are designed to be quiet, with good insulation, no bars or discos, no long echoing corridors with noisy slamming fire doors etc

And designed out those things that are disliked.

- They all offer the customers the chance to pay on arrival and leave without needing to check out – even conventional Hotels have learned this one!

And monitoring the criteria which have been identified as critical to delivery of the service

- Customer feedback.>

Tool 3. Learn to rank everything.

When a management consultant gets into a new client he wants to find some quick wins to show how much value he can add to that client. So he will try to find out all about the business. Then he will see what information is available to rank various activities

- Customers (by profitability)
- Sales Agents (by profitability)
- Salesmen (by profitability)
- Contracts or Jobs (by profitability)
- Product lines (by profitability)
- Employees (by productivity)
- Managers (by effectiveness)
- Activities (by value added)

And guess what he finds?

- The top 10% of customers generate 70% of the profit (yeh, so what?), but the bottom 10% of customers generate 70% of the hassle, the client loses money on these customers, and the chances are they don't pay anyway.

  The answer is pretty obvious, if the company writes to its 10 worst customers and asks them to go elsewhere, its profitability increases, the hassle suffered by all employees and managers reduces, and debt collection improves. It is incredibly obvious and yet most small businesses are afraid to do this. Believe me this is what your best-managed competitors are doing.

  If you are not sure about just saying goodbye to these loss making customers (after all they may include some of your biggest customers) then at least focus management time on this sector, taking one of three decisions – finish, fix, or fee. Finish – as suggested the best answer may just be to ask the customer to go elsewhere. Fix – in some cases it may be that some concentrated management effort can sort out the problems, improve your systems and return the client to profitability. Fee – if you can't fix and don't want to Finish then you must try to improve your fee. One firm I know has developed a good letter for its worst customers along the theme 'This relationship isn't working for us, we are not getting enough money to cover our costs, we are not prepared to wait 150 days to be paid, so either fill in the enclosed direct debit form, and understand that our fees will be going up 50% from now on, or please find yourselves another supplier.' They find that a surprising proportion of clients getting this letter settle for the 50% rise in fees!

- The top sales agents or salesmen generate most of the profits – these guys have to be properly managed, motivated, rewarded, **and appreciated.** The bottom salemen or sales agents probably cost you money. Their basic salary, car, and on-costs almost certainly exceed the gross profit that they bring in.

  Managing a sales force is never easy, but if you have sales agents or salesmen who are costing money you must do something about it. In particular if you have two or more failing salesmen they will soon befriend each other and develop their own little culture of failure, blaming the company, the customers the products, the other salesmen (not themselves). The best approach is to systematically bring in, train, and motivate new people and dismiss the non-performers. (Make sure that you have the right to dismiss salesmen who fail to achieve target written into their contracts).

  In my experience the most successful salesmen will always be the ones who are looking after your most important customers. It is difficult for the new guys to break into an established and profitable customer base. Occasional the right guy may be non-performing because he locked out of the established customers, in this case shuffling the portfolio may result in a better outcome for the company, but again this takes courage and skill.

- If some contracts, jobs, or product lines are very profitable and some are loss making, the consultant must investigate until he fully understands what factors lead to success and what factors lead to failure. He can then make recommendations as to how the loss makers can be avoided, fixed or charged for.

  In general turning away the job, discontinuing the product line, or terminating the contract is the action of last resort. If they can the firm would rather improve their management, systems, or methodology to avoid mistakes and reduce production costs and make the activity profitable. However, that may not be possible, in this case they would rather try to increase prices and make some profit on a smaller level of activity. In last resort the realistic analysis may be that the activity cannot be turned down and the only way to improve the whole business is to avoid the type of job, or close down the product line in which we can no longer compete.

- If the consultant ranks your production workers, mushroom pickers, typists, draughtsmen or software engineers by productivity there will always be some stars (make sure that you look after them) and some no-hopers.

  You must assess whether you want to keep the no- hoper, if you do (for example because they are very positive, helpful and adaptable) can you improve productivity by training, or can you redeploy to a more suitable role. If however the no-hoper is negative and unhelpful then he simply must be asked to leave.

- For many years GEC senior management had to rank junior managers by effectiveness. Each year the bottom 5% were asked to leave. This systematic annual cull of under-performing managers made GEC one of the best-managed business in the world!

- In most businesses there will be activities that destroy profitability and productivity. For example, a small pet shop offering free delivery. What do the customers ask to be delivered? – Bulky and heavy products such as straw and sacks of dog food. The trouble is that there is so little margin on these products that it does not cover the cost of delivery. Customers are getting a good deal (delivered products at below cost) so this part of the business becomes substantial.

  Again there are a couple of possible solutions, introduce a delivery charge, or withdraw the service.

In all the above examples the same management technique is being used.

1. Choose an aspect of the business to investigate
2. Rank the elements
3. Identify the worst performing, and especially the loss making elements.
4. There are usually three possible solutions Fix, Fee, or Finish.
   - Fix. In many cases the worst performing elements can be fixed, better training, better ways of working, better equipment or whatever can turn around a loss-maker.
   - Fee. In some cases the problems are outside of our control, if we increase the fee to cover the real cost some of the problem customers or jobs might go away of their own accord, but the ones who stay become profitable.
   - Finish. There will always be some cases in which the only rational solution is to terminate the problem before it gets worse.

This relatively simple system will invariably lead to better profits, and less hassle. For management consultants it will demonstrate some immediate and valuable gains, they call it 'harvesting the low hanging fruit'.

As a consistently applied management tool **this technique allows companies to consistently raise their game**. Over time the low hanging fruit are all harvested but the best managed companies are still using these techniques, to pull out of the least profitable activities – so that they can concentrate on those activities (customers, products, employees) that add most value.

The great danger for the less competent management is that although they know perfectly well what the loss makers are they convince themselves that they can fix these problems (against all the evidence), and soldier on, avoiding the hard decision to make the necessary cuts. Thus leaving the problems to drain money out of the business and energy out of the employees and managers.

This isn't difficult, even a one-man-band can take an hour to identify poorly performing customers, products, activities, or employees. Cutting away the cancer is incredibly liberating, freeing up time, energy and money to concentrate on the successful aspects of the business.

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Chapter 3. How to work smarter.

Tool 4. Systems, systems, systems.

Selling up?

If you want to sell your business before you retire, what do you have to sell? You may have premises and you may have a customer base and they may be worth substantial money. But to build up value in a business you must have systems. It is the systems that will ensure that your business goes on making money long after you have retired. If you don't have systems the business will quickly disintegrate, it won't have a value.

So you think you are working too hard!

Do you want to move from a successful business depending upon the proprietor working 50 hours per week to a successful business that doesn't depend upon the proprietor at all?

Do your staff often seem to get basic things wrong?

If the answer to these questions is 'Yes' then the first person who needs to change is you. You have to move from the person who does the work to the person who organises **how** the work is done.

Note that your job is to organise **how** the work is done. Not who does the work, or when the work is done – these are important administrative tasks, but not the most important management task.

Basically if you want staff to get it right, to work efficiently, then you have got to start documenting systems and training staff to use those systems. Slowly but surely you will improve quality and productivity – and reduce stress and hassle.

The critical importance of systems.

Now managers of big companies find many important things to do: making deals, talking to investors, developing strategies, and making decisions. And managers of small companies also find many important things to do, sorting out problems, talking to customers, scheduling work, and making decisions.

But managers of **successful** companies focus on perfecting their internal systems.

Maybe it is Toyota who seek to produce a car with zero defects, first time every time. Everything, from the layout of the factory, to the design of the car, to the methodology of assembly has been analysed and systematised down to the last detail.

Maybe it is MacDonalds who carefully design every outlet so that the production and selling of burgers is as efficient as it is possible to get. And the product is absolutely consistent across the entire chain, even though many outlets do not seem to have any employees aged more than 20! Every aspect of cooking and serving burgers has been analysed and systematised down to the last nth degree.

How to do it

If you want all of your employees to work to the same efficient and error free system then it is up to you to make it happen.

If you want new employees to be able to slot into your organisation and within a few weeks be doing jobs efficiently and without error then it is up to you to make it happen.

The objective is that every job in the place has a set of systems notes or a procedures manual. Call it what you will, the most able people in the organisation must work out the most efficient method of performing every job and then must document their findings. Procedures manuals are then built up until there is a bible that covers every activity in the organisation.

There are a number of further stages that are crucial to making this level of systematisation work.

Firstly, you have to have training, both existing and new staff have to know about the procedures manuals, where and how to access them. They need to be taught the basic contents, and why the procedures are important. They also need to have adequate skills to carry out the procedures for which the manuals have been written. No manual will turn an engineer into a surgeon, or visa versa.

After training comes supervision. Colleagues, supervisors and managers need to make sure that the procedures are adhered to and that outputs are to the expected standard. Some systems may require that the employee fill out a process control form (ideally recording a measurement or output of some kind rather than just ticking a box) as he works through the process. This is designed to keep the employee on the approved procedure.

Thirdly, and perhaps most importantly comes ownership. The employees must own responsibility for the tasks they perform. For them to own the task they must have the right to amend the procedures manual! There are at least 4 circumstances where procedures manuals will be updated for internal reasons.

- At the start of this chapter we talked about error rectification. When an error occurs the team (employees and management) will want to modify the manual so that systems are improved to eliminate that source of error.
- In the second part of this chapter we talked about management focusing on a procedure, developing ways to improve quality and reduce waste. Managers might find ways to improve systems.
- Nobody knows the job like the person who does it. Employees may well see ways of improving upon systems designed by managers.
- Lastly, employee teams can be set tasks to improve systems. These teams can usually come up with improvements.

Whilst management must have an overall editorial control of the manual, employees must have confidence that their improvements will be adopted.

There will also be external reasons for updating and amending the procedures manual, new tasks will arise, new legislation will impinge, quality systems may be adopted or whatever.

Don't think that systems are only for very repetitive tasks like cooking burgers or building cars either. Planned procedures are also very important for one-off tasks or small tasks that come round periodically. The efficiency of most tasks can be improved immensely by introducing proper systems.

A few thoughts on paper driven systems
Although procedures themselves must be written down, I am not keen on systems that require a great deal of form filling to operate the quality controls (ISO 9000 for example).

Good systems have quality, accuracy, and efficiency built into the procedure itself. Stopping to document progress reduces efficiency and by taking the employee's focus from the real activity to the paperwork may reduce accuracy as well. Certainly, employees who have to operate paper driven systems often complain that the paperwork assumes more importance than the activity itself.

Case Study 3.4.1
A few years ago BNFL (British Nuclear Fuels Ltd) lost the contract to supply Japanese nuclear power stations with reprocessed fuel after it became known that BNFL employees had made up the quality test data from certain processes.

<*Authors Note: If paperwork fatigue can happen here it can happen anywhere*>

So like everything else that costs money, documenting quality control procedures should be kept down to what is essential and definitely not allowed to grow out of control, replacing the initial inefficiency with a massively expensive paper chase.

Chapter 3
Conclusion

If you manage your own business I bet you know which customers and activities lose you money and have for ages meant to sort them out. Promise yourself to do it today.

You will also know of a department or an activity whose procedures are anarchic. That is your first priority. Get it sorted out. (Remember always deal with the worst elements first, that way you get the big wins first)

Talk to your employees. Get them to document procedures. Explain to them about learning from mistakes – and updating their procedures manual accordingly.

Successfully Managing Your Small Business
Chapter 4. How to Plan for Success.

Introduction.

'There are those businesses that plan to succeed
And those that don't'.

This little pearl of wisdom puts far more succinctly than I ever could why business planning is so important. Most successful business that I have ever advised use a formalised planning process.

There is another pearl that I think you should be aware of from the start

'The plan is bunk
Planning is everything'.

It is essential to realise that whilst there are loads of valuable outputs from the planning process, a rigid plan is not one of them. The old military dictum that the plan does not survive the first five minutes of combat, applies equally to business plans. The planning process sets the direction, it sets longer-term objectives and shorter-term goals, but to be really successful a strategic plan must be flexible. Managers must have the freedom to take day-to-day decisions to meet threats and capitalise on opportunities. If these threats or opportunities are so great as to require that the overall plan be reconsidered and changed so be it.

A good plan is a management tool, not a straightjacket.

You will gather from the above that this chapter is about a business management tool, it is not about those 'business plans' which bankers and outside investors so often require. The purpose of that kind of plan is primarily to show the investor what he wants to see. You have two choices; either you can work through the booklet that your bank will willingly supply to you or you can employ an accountant or business adviser to do the plan for you. Although the lender will tell you that they would rather have your plan than one prepared for you, they will almost certainly be more impressed by a really professional looking plan prepared by someone who does this for a living!

Thus, I distinguish between the 'bank business plan' and the 'strategic business plan'.

Given that it is the planning process that is important and not the 'final plan' this chapter is about strategic planning.

Successfully Managing Your Small Business
Chapter 4. How to Plan for Success.

An Overview of Strategic Planning.

Strategic Planning is often compared to going on a long and complex journey. If you are planning a journey that you have never previously undertaken, you need to know three things

- Where (and when) you are starting your journey.
- Where you are going.
- The route you are going to use.

It is the same with strategic planning, there are three stages to the process.

- Know where you are.
- Know where you are going.
- Know how to get there.

In my opinion none of these are particularly easy. However there are a number of well established management tools which make each stage possible and it is my experience that the advantages of planning start to flow from the very first minutes that are dedicated to the process.

Here are a few of the advantages that flow from strategic planning

- Increases the motivation of everyone who takes part.
- Helps get everyone pulling in the same direction.
- Helps identify problems, then find and implement solutions.
- Helps spot opportunities.
- Helps give a small business confidence to move forward.

Case study
This is a story of two businesses. ABC Ltd had 12 full time staff and profits of £100,000 per year. XYZ Ltd has 6 staff and profits of £50,000 per year. Both businesses had outgrown their existing premises.

An ideal premises capable of housing 12 staff with minimal refurbishment, perhaps 24 staff with development, came onto the market for £120,000 freehold. This was good value, even in Norfolk. ABC Ltd had no strategic plan and could not decide to act. Although the financial strain for XYZ Ltd was much greater the premises fitted their strategic vision for the future. They acted swiftly upon becoming aware of the opportunity. They have doubled the size of their business in four years from this base, and plan to continue the growth pattern with no need to move for the foreseeable future.

ABC Ltd eventually moved to a less suitable and more expensive premises, which they quickly outgrew.

Successfully Managing Your Small Business
Chapter 4. How to Plan for Success.

Stage 1. Know Where You Are!

In the last couple of decades SWOT analysis has become extremely popular, and I am an unashamed enthusiast. In principle SWOT analysis is dead simple. You divide a clean sheet of paper into four like this

Strengths	Weaknesses
Opportunities	Threats

Then you try to think of the most obvious strengths of your business. Then Weaknesses etc.

First, it is useful to understand the difference between Strengths and Opportunities and the difference between Weaknesses and Threats. Basically, strengths and weaknesses are internal characteristics of your business, opportunities and threats are external to the business, but capable of having an impact upon it.

So the SWOT matrix can be better understood as

Internal Characteristics

Good	Bad
News	News

External Characteristics

The real strength of the SWOT idea is however embedded in the four words themselves

- Strengths – the word just screams out ‘to be built upon’ or ‘to be exploited’.
- Weaknesses – the word tells you that you have to act to do something about these weaknesses.
- Opportunities – the word tells you ‘opportunities are not to be missed’.
- Threats – the word tells you ‘threats have to be dealt with.’

In other words the very language of SWOT analysis demands action. This is not an academic exercise. SWOT analysis virtually forces you into preparing a plan of action.

Before you have a go at SWOT analysis for your own business I suggest that you be prepared to have about ten attempts. Here is how to do it. Firstly, just have a go. Off the top of your head try to think of as many strengths and weaknesses, opportunities and threats, as you can. Write them down on your sheet of paper.

Now, when you run out of ideas try a more structured approach and for each aspect of the business do a separate SWOT. Here is a suggested checklist of aspects to consider.

- Management
- Markets and Customers
- Marketing and Sales
- Products and Services
- Production and Systems
- People and Training
- Buying and Suppliers
- Premises and Ergonomics (spatial organisation)
- Capital and Funding

Now consider 'do we need to do SWOT analysis for particular divisions or products?' Even small businesses typically have several products and services. Whilst 'Product Sales' may support 'Service and Maintenance' and visa versa, focusing on each department in turn may well yield useful insights.

Now consider who should be doing SWOT analysis. The more people who contribute the more reliable are the trends and the better quality will be the ideas and decisions that arise. Critically important is the fact that the more people who are involved, the more people will buy-in to the results. Managers and staff who are involved in drawing up the plan will be much more committed to making it happen.

Finally, somebody has to co-ordinate the results of this effort. In effect everyone's efforts need to be combined. Ideally a co-ordinator will write down everyone's ideas on a central SWOT analysis. Trends and individual ideas must be discussed. Finally the co-ordinator must prepare a report from the SWOT analysis setting out where we are on each aspect of the business. Most important will be an action plan for

- Building upon Strengths.
- Dealing with Weaknesses.
- Exploiting Opportunities.
- Dealing with Threats.

As a way of establishing where you are starting from this is marvellous 'isn't it?'. Instead of a static list, we have a dynamic description. Just compare

Case Study
Extract from a traditional Evaluation.

People

- *1 manager (qualified engineer)*
- *2 qualified engineers*
- *2 technicians*
- *1 apprentice*
- *1 part time administrator*

Extract from a SWOT analysis

People

- *(Strength) Excellent technical ability in depth, giving us the ability to extend the business without needing to recruit further engineers.*
- *(Weakness) Nobody has any training or expertise in sales or marketing, too much senior engineer time taken up seeing potential customers – poor conversion rate – prices achieved do not reflect technical content – we need to recruit or retain a sales and marketing expert.*
- *(Weakness) Too much senior time is taken up doing admin – we need to recruit a p.a.*
- *(Threats) Our senior engineers are in great demand from much larger competitors – we need a scheme to tie them in.*

<Authors note: there is just no question, that the SWOT analysis is the more useful evaluation of the current position! >

Now, I described Strategic Planning as a three-stage process. It is, but there is no reason not to take action on the obvious issues that arise from the first stage. The SWOT analysis is designed to get you managing the business. Don't be put off just because you haven't completed stages two and three.

Get managing.

From the SWOT analysis draw up an action program – a list of bullet points upon which action is required. Identify who is responsible for each action and what the timetable is for each action. Follow up on the points and make sure that they happen.

This is the core to good management

- Identify clearly what needs to happen.
- Identify clearly who is to do it.
- Set a timetable.
- Communicate these requirements to everyone involved. This must be done face to face and followed up by a short written memo.
- Follow up to make sure it happens.
- Move on to the next stage

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Stage 2. Know Where You Are Going!

This is what leadership is about.

A leader must have a vision for where the business is heading, and he must articulate that vision to everyone else in the business.

Having a vision for the future starts off with asking yourself 'what is my vision for this business in 5 years time?'

It is important not to abandon ambition when rejecting fantasy at this stage. A strategic plan should be challenging – only by being challenging will it spur the team to find ways to excel – to beat the competition.

You can't easily tell what are realist goals, what are challenging goals, and what are just plain impossible, until you try to work out how to get there. So this isn't a tidy three stage process. If you start by setting yourself the objective of doubling the size of the business in 5 years break that down. Can you add 20% of the current size each year for the next 5 years? More? Less? What does this mean for additional manpower, space, working capital? Can each of these be accommodated?

Revise the goals, revise the plan – as often as you like.

Perhaps even before designing a business plan each individual member of the ownership and management team must ask themselves 'what do I personally want to be doing in 5 years time, and ten years time?'

The answers to that question must be integrated into the business plan if it is to have any real chance of success.

We call this having congruent goals, we need to be pulling together to achieve our own goals by achieving the goals set out in the business plan.

The important thing is to try to imagine where you want to be and where you want the business to be. Here are some tips.

- Think about those businesses that have already done or are already doing what you want to do – don't be afraid to use **role models** to articulate your 'vision'.
- Constantly monitor what your competitors are doing – join the trade body or national buying group or whatever, anything so that you get to hear what the best managed businesses in your industry are up to on a regular basis.
- Talk to your staff regularly – one to one or in brainstorming sessions – they will have lots of ideas for improvements in systems, new products and a multitude of ways to take the business forward.

Case study
When I set up in business as an accountant, it was pretty much from ground zero, however one of my first clients was owner of a successful insurance brokerage business. I think he would be the last person to claim that he never had any problems, or never made mistakes, but for me from those early days he was a role model. He had a profitable, ethical business. He was where I wanted to be.

More recently we have joined a lose confederation of accountancy firms. The big value of this to us is informal. We get to listen to what some of the best firms in the industry are doing. What are the best software products, what are the most effective marketing techniques, what the latest customer research is showing, what new services accountants are offering to their clients. We always come back from meetings and revise out strategic plan.

Some of our best ideas come from our staff, ways of working which reduce errors, ways of approaching existing or potential new clients for new business, training and recruitment needs, etc.

So get your 5 year plan articulated – make sure that managers and staff know what the goal is and buy into it.

From the examples below you will see that 5 years is not a period set in stone, goals can quite reasonably be articulated for 1, 3, and 10 years – it depends what is appropriate.

Case study
This is derived from a successful vehicle hire business that I still act for.

In next 12 months

- Combine two depots in Ambridge
- Shuffle managers to make redundant X who simply cannot adapt to the culture of the company.

Over the next three years

- Continue to invest in new and quality vehicles and systems, and thus to grow the business organically. – To grow profits at 20% per annum.

During the next 5 years

- To buy further depots as suitable opportunities arise.

In about 10 to 15 years

- To sell the business to a national chain.

It is surprising how similar is the core strategy document of a totally different business in a totally different industry.

Case study
This is derived from a successful cleaning business that I act for.

5 Year plan

- Continue to grow the business organically within the limits set by recruitment and winning new contracts.
- No acquisitions – thus avoiding putting money in or increasing gearing of this low margin industry.
- Set goal of 10% growth in sales and profit per year (50% in four years).
- Continue to build up the management team – so that the business is not dependent upon me – management will be strong enough to consider a MBO when time comes to dispose of the business
- This is all part of the plan to sell the business in 5 to 8 years time.

However in the case of one maintenance business a completely different strategy was appropriate.

Case study
This strategic plan is derived from a successful maintenance business that I act for.

Background
Our strength is that we provide a niche service to clients for whom safety and delivery on spec and on time are more important than price. This allows us to earn an exceptional profit but means that we do not have the option to expand, apart from out of our niche and into ferociously competitive general contract maintenance.

Financials are as follows

	2003 (Actual)	2004 (Projected)	2005 (Budget)
Sales	450,000	600,000	480,000
Profit before Tax	150,000	220,000	180,000

Five year plan
We have considered expansion. We conclude that the diversion of management time into an area with low profits, and probably plenty of problems with getting paid and so on is not a sensible option for us at present.

We will continue to focus on providing our key clients with the level of service that they require – not least the day-to-day presence of the owner on site, controlling quality and safety. There is no reason that the level of work should drop off in the next 5 years and the current management have indicated that as long as the service levels continue we will continue to be the prime contractor.

Net cash will be extracted as efficiently as possible and invested in a portfolio of assets for the longer term financial security of the family (property, shares, pension policies, etc.)

Successfully Managing Your Small Business
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Stage 3. Know How to Get There!

Q. How do you eat an elephant?
A. In lots of small bites, of course.

I rather like the above soundbite. An impossible task, such as eating an elephant, can be made achievable if you break it down into manageable stages. This is what planning should be all about.

There is another good saying from the middle east

Even the longest caravanserai starts with the first step.

Just as applicable to business strategy as to trading across vast deserts, this saying reminds us that once we have decided where we are going it isn't going to happen until we take the first steps – and that once we have started then we are on the way to achieving our goals.

Once you know where you want to go, then you can start to plan the steps you need to take along the way. It depends what your plan is but these steps can take many forms, decisions to buy or dispose of property, to recruit or dismiss staff, training and investment in software, all these decisions can now be set in the context of a strategic plan.

The first thing to do is to learn to do some 'back of an envelope' financial analysis.

Case study
Bob wants to double the sales and profit from his vehicle hire business in the next 5 years.

He knows that the current financial position is roughly as follows

	Turnover	Profit	Fitters
Depot A	600,000	100,000	4
Depot B	300,000	40,000	3
Depot C	200,000	-10,000	2
Depot D	220,000	0	2
Depot E	180,000	10,000	1
	1,500,000	140,000	12

To double turnover in 5 years he needs to add (1,500,000 / 5 =) £300,000 to sales every year for five years.

How feasible is this?
Depot A – is close to capacity the fourth fitter does not have a proper work bay and the manager has nights when he cannot get all the vehicles into the yard, growth prospects are minimal.

Depot B – is if anything a little larger than depot A, but seems to be having considerable difficulty attracting hires

Depots C and D are rather to close to each other. C has capacity similar to A and B, D is smaller, and a valuable freehold.

Depot E has roughly 2/3 the capacity of A, and is on a short leasehold.

So Bob maps out a likely future
(Turnover in £'000)

Depot	Year 1	Year 2	Year 3	Year 4	Year 5
A	620	640	660	680	700
B	330	360	390	420	460
C	240	540	600	660	700
D	260				
E	220	260	300	340	400
Total	1670	1800	1950	2120	2260
Target	1800	2100	2400	2700	3000
Shortfall	130	300	450	580	740

Clearly, £2,260,000 is a major shortfall on a target of £3,000,000. It is also very likely that

- Depot A will have to be extended, moved somewhere larger (or a second depot set up nearby)
- Depot B requires some heavy marketing and promotion as it will not be near capacity even in 5 years at these rates of growth.
- The combination of C and D should work well, bring D up to capacity in about 5 years.
- Depot E will have to be relocated in about 4 years (the sooner the better so that it can be expanded to an equivalent of A and C)
- Clearly if the business is to reach its targets the proceeds of selling the Freehold of Depot D will have to be reinvested in a new Depot (F)!

Authors Notes < this example could be expanded to fill a book on its own, but it demonstrates how

- The steps necessary to achieve a 5 year strategic target can be broken down to 5 annual targets
- These targets can then be compared with the capacity of the business.
- Major decisions become easy in the context of a strategic plan.>

It is easy to imagine how this plan could be extended to cover funding requirements, management and personnel, training, product lines, and marketing.

Two really useful tools used by professional managers to manage complex projects, which are also useful in business planning are

- Critical path analysis
- Gantt charts

These are not tremendously complex either to understand or to use.

Critical Path Analysis
First one must identify all of the stages (or milestones) that are essential to bringing a project to fruition.

For example, in order to acquire a new depot and make it successful Bob must

- Have adequate finance available for the purchase
- Have adequate finance available for the hire fleet
- Have a suitably qualified manager available
- Buy the premises
- Refurbish the premises
- Buy the hire fleet
- Have the hire fleet available to hire
- Market the new Depot

Some of these milestones might have a series of preceding milestones of their own. For example, if we do not have a suitably qualified manager available now, we will need to

- Identify or recruit potential manager(s)
- Train and assess potential managers(s)

Each stage is given a short identifier to save space

- Have adequate finance available for the purchase – (Adq Fin Site)
- Have adequate finance available for the hire fleet – (Adq Fin Fleet)
- Have a suitably qualified manager available – (Mang avail)
- Buy the premises – (Buy site)
- Refurbish the premises – (Refur)
- Buy the hire fleet – (Buy hire Fleet)
- Have the hire fleet available to hire – (Fleet avail)
- Market the new Depot – (markt depot)
- Identify or recruit potential manager(s) – (Ident mang)
- Train and assess potential managers(s) – (train mang)

Now the objective is written on the far right of the page (in landscape)

Any stage which is an immediate precurser of the objective is then joined by a line to the objective. (No stage which has a stage between it and the objective can be joined to the objective)

Now the stages immediately preceding those on the diagram are added, and so on until all the stages are listed. The important thing is that time flows from left to right across the page and no stage that must be completed before the next stage is started can be to the right of the dependant stage. Time cannot flow backwards.

The finished diagram is Appendix 1. Clearly there are some stages missing (Find site for new depot, recruit staff, train staff, install computer system for a start) these missing stages became clear when the chart was drawn up – this alone would help to make the project more successful, and would thus warrant the effort of drawing up the chart – so I have drawn up a first revision Appendix 2 to show you how this might work

The line with the most entries gives us the critical path. The greatest number of targets to be achieved if the project is to be successful. This is the most important path where management effort is to be concentrated – although the important thing is to make sure that none of the critical paths get behind.

The Gantt Chart

The Gantt chart enables the manager to take a critical path that bit further. Time budgets are allocated to each activity. These are then projected back from the target date and thus a completion date is allocated for each activity.

A Gantt chart for the successful completion of the new depot is set out in Appendix 3

The Soft Stuff

I hope you can see how critical path analysis and Gant Charts can help you plan the development of your business from where it is to where you want it to be. These techniques are not particularly difficult to use. However there are some even more powerful tools available that are much less technical.

When I first tried to write about strategic planning, I wrote down that it was uncanny how often opportunities seem to arise once you start to look for ways to achieve your goals. In my experience this surreal experience has taken the following forms

- Premises coming on the market just after the team have identified a need
- Meeting people with the skills needed to fill a skills gap just after that need has been recognised.
- Meeting potential investors just after a funding requirement has been identified
- Finding an ideal business for sale just after a decision is made to look for an acquisition.

I recently attended a training course where this phenomenon was explained to me. It's very simple really. We all know that when we get a new model of car, we start seeing that model of car everywhere. Its not that the cars weren't there all the time, the change is that we have started to look for them (even subconsciously).

The world is just full of opportunities, its just that we don't see them if we don't look for them! This doesn't mean that all opportunities will fall into your lap as soon as you devise a plan, far from it by far the most common experience, is of

- hours spent traipsing around estate agents looking for premises

- advertising for suitable employees who simply don't seem to be out there
- rounds of rejections by banks or venture capitalists.
- Years spent looking for a suitable acquisition.

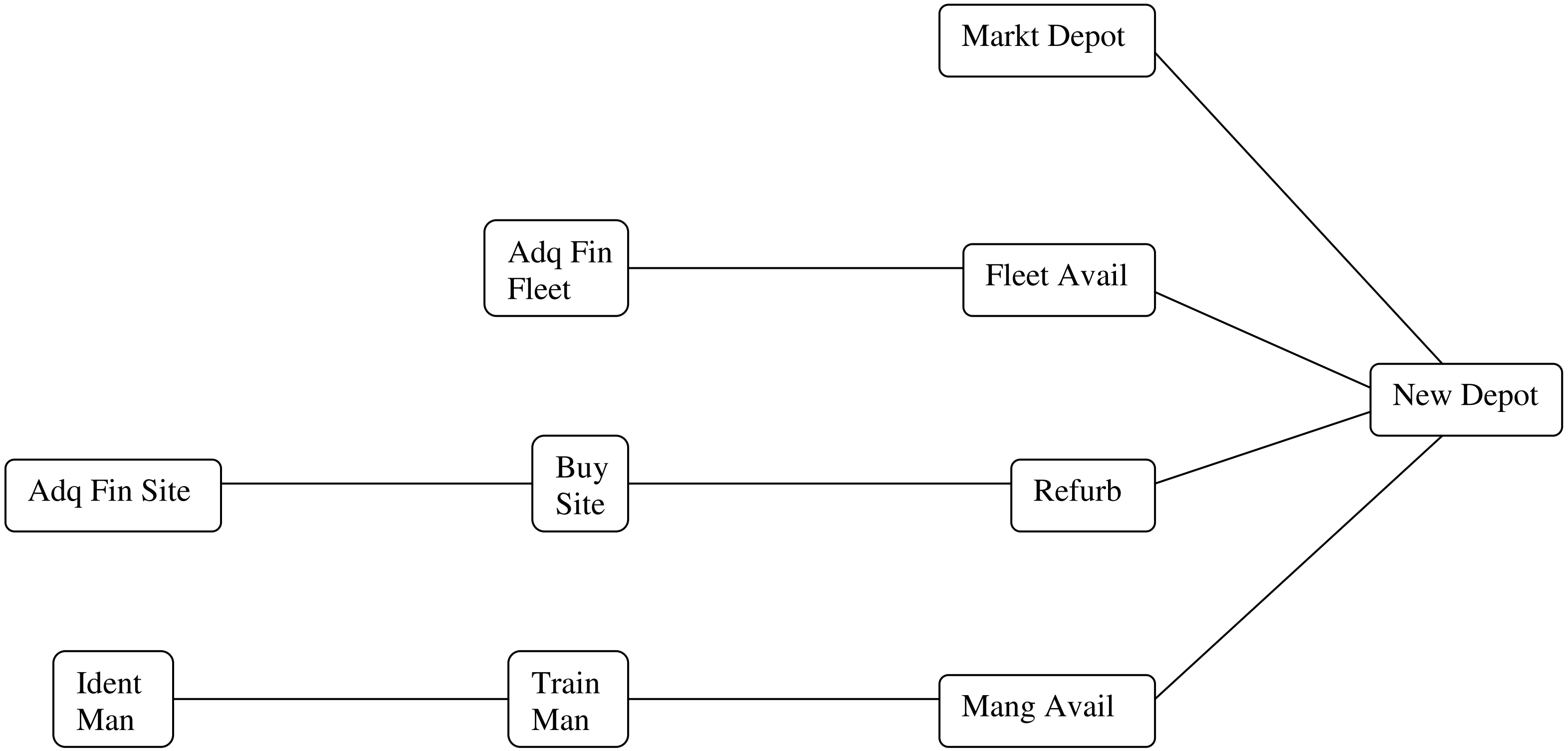
Basically most people will tell you that success is 20% ability and 80% hard graft. So don't expect things to drop into your lap – the chances are you will have to apply time, intelligence and sheer hard graft at it to make your goals come true. But when you set your own goals and start to look at how to get there, you also go some way to starting to make your own luck. Don't be blind to the opportunities that are out there, they can sometimes help you to make huge strides in the direction that you want to go.

I started this section with the famous quote that *even the longest caravanserai starts with the first steps*. To take that analogy a bit further is to consider the topic of direction. It is very hard to change the way you live your life, or the way that your business operates. However consider this.

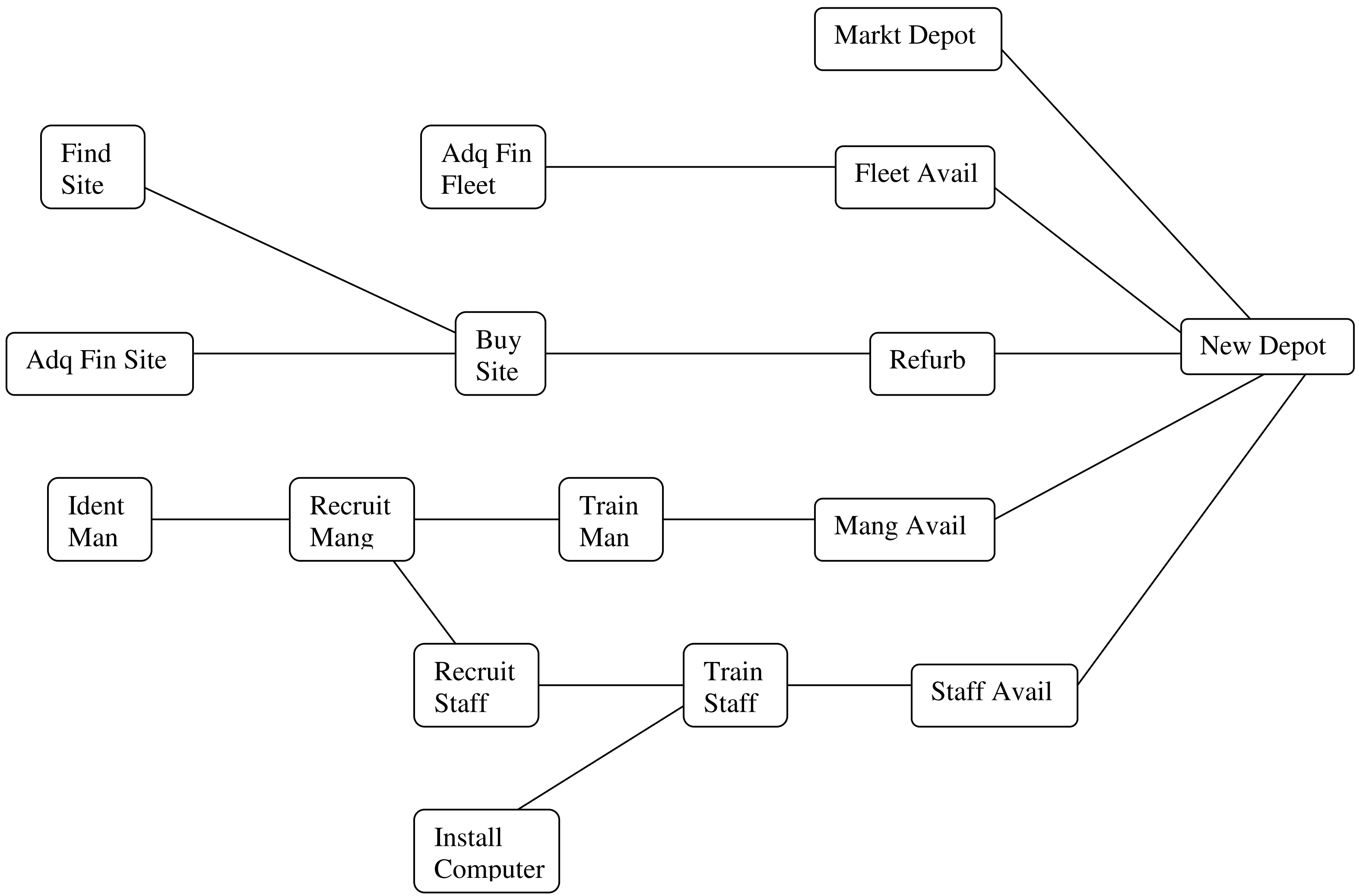
If you are on a long journey and you make a 5% change in the direction of travel will you end up in the same place?

No of course not. Again the point of the analogy is not so subtle. You can make small changes in the way that you do things that nudge the business in the direction that you want it to go. Over a period of time small changes can add up to a transformation.

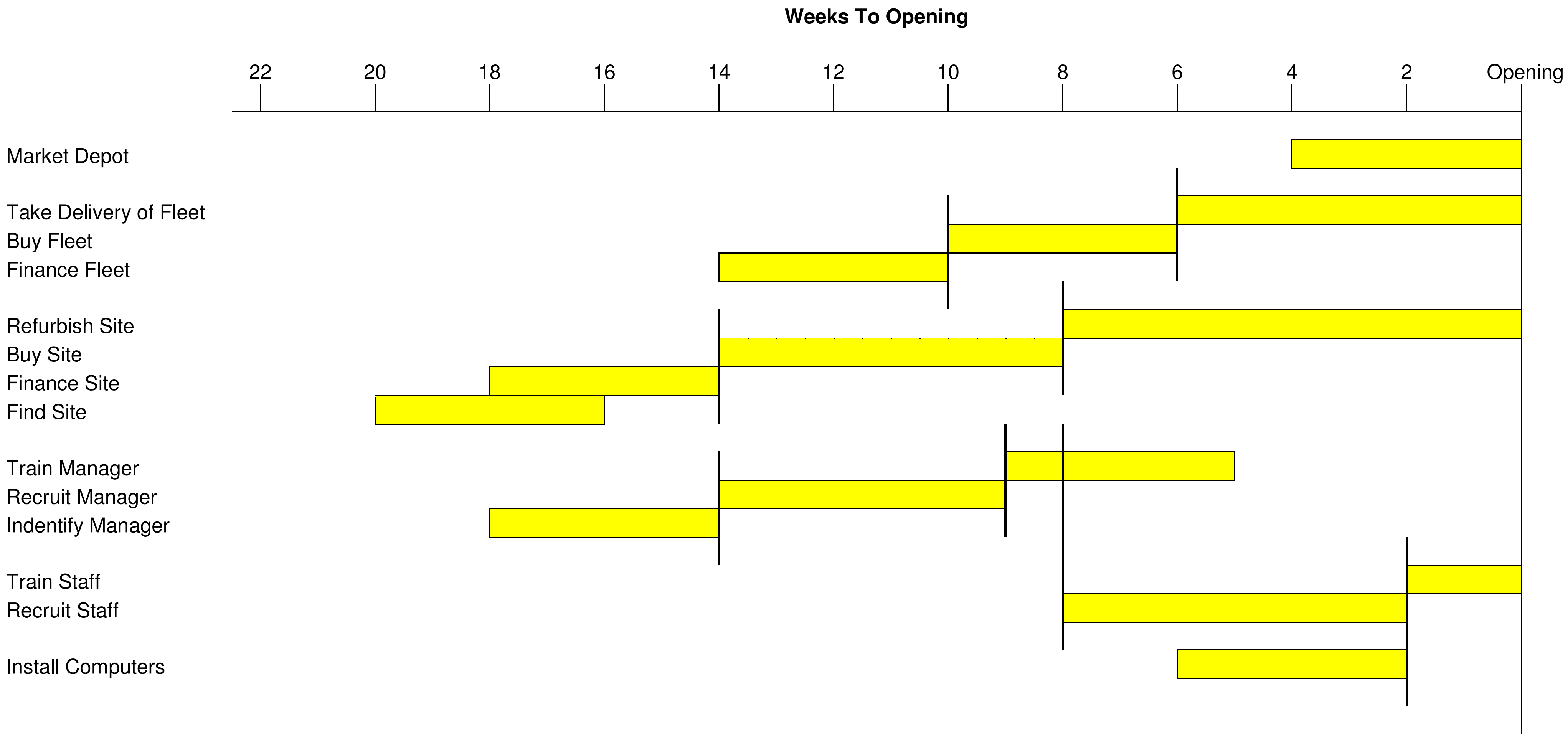
1st Attempt at Critical Path Analysis



2^{nd} Attempt at Critical Path Analysis



Gantt Chart



Weeks To Opening
22
20
18
16
14
12
10
8
6
4
2
Opening
Market Depot
Take Delivery of Fleet
Buy Fleet
Finance Fleet
Refurbish Site
Buy Site
Finance Site
Find Site
Train Manager
Recruit Manager
Indentify Manager
Train Staff
Recruit Staff
Install Computers

A Short Digression

SWOT analysis can be useful for assessing, people, departments, divisions, technologies but also ourselves.

Setting goals and developing a strategic plan is essential for a business, but is also useful to take some control of our own lives. Our personal lives, but especially our careers and working lives.

Two things become clear when you think about it.

1. Most people never take control of their lives and have no idea where they are going. These people spend most of their time responding to the demands of others.
2. Successful role models have almost always got to the top by remorseless focus. They concentrate their efforts and their time on doing what they need to do to succeed.

If you are going to succeed you need to start focusing your time on the things that you need to do to succeed. You need to spend a bit of time (hah) working out what you typically do with your time. Then use the tool that I gave you in chapter 3. Rank your activities. Now are there

- Things that you do that are a waste of time that you could avoid altogether to make time for more important activities.
- Things that you could easily delegate to someone else.
- Things that you could less easily delegate to somebody else.
- Things that you could do more efficiently.

When I first started my career a wonderful employer sent me on time management course – why don't you send yourself – your time is the most valuable thing you have, learn to use it wisely.

One part of that course that I remember 25 years later was about document management – in particular dealing with the post – I still operate this system.

- Junk mail goes straight in the bin.
- Things I might like to read go on a pile – every so often I throw away the bottom 1/3 of the pile.
- Things that can be dealt with immediately – filed away or given back to my PA with a simple instruction are handled just once. This is my objective – as far as possible handle documents just once.
- What can be delegated, I delegate
- What is left are the things I want to do, perhaps a few that I must do.

This simple system enables anyone to free up as much time as possible from pointless shuffling of bits of paper – I commend it to everyone.

Having freed up some time the really important thing is to use that time wisely. Use it in pursuit of your goals and your ambitions.

There is one last and very important matter to bring into this digression on personal development. You only live once. Don't spend all your time suffering in the pursuit of distant goals and ambitions. There has to be a balance between setting worthwhile goals and enjoying yourself on the journey.

I once heard a neighbour telling my father that another neighbour *'..had made lots of money, but he hadn't made much happiness had he?'* That is not a good way to be remembered is it! So when you are drawing up your business plan

- Make sure it meets the legitimate aspirations of staff and suppliers
- Make sure there is plenty of opportunity for staff and suppliers to have fun along the way.

And when you are drawing up your own career plan, make sure that you don't forget to include plenty of chances to enjoy yourself.

This is a serious (sic!) point (an important point) in its own right, but it is also important in the battle to achieve our goals. In simple terms we achieve most when we are feeling positive, and we feel positive when we are enjoying ourselves.

That more or less brings me to the end of the section on strategic planning and I just want to recap on what I thing are the important points of this chapter.

Know where you are.

- Use SWOT analysis
- Write it down
- This is a dynamic methodology – don't hesitate to start to take action in response to the SWOT analysis.

Know where you are going

- Imagine where you want to be.
- Use role models
- Work out what you need to do to get there, amend your objectives as necessary
- Articulate your vision for the rest of the team
- Get feedback

Know how to get there

- Work out what you need to do to obtain your objectives
- Break it down into manageable steps
- Set up goals and timetables to achieve these steps.
- Be aware that small steps in the right direction, small changes in direction towards your longer term objectives will build up a momentum of their own.
- Be prepared to grasp opportunities that will help you achieve your goals

Successfully Managing Your Small Business

Conclusion

Most small business people consider themselves to be overworked and underpaid. The trials and tribulations of running a small business are seemingly endless – maybe one day I'll write another book to fill in some of the more obvious gaps in this one.

However, I hope that if you have got this far

- You are more confident about parting your customers from more of their money – and getting paid more quickly. (chapters 1 and 2). Perhaps in future you will not be able to claim with good grace that you are 'underpaid'
- Secondly, I hope that as a result of reading chapters 3 and 4 you are, if still a bit of a workaholic, at least now more in control of what you are doing.
- And lastly, I hope that you know where you are going and where you intend to take your business.

If, in fact, you have read the book through quickly and haven't yet had a chance to enact any of the ideas that are new to you, I would suggest that you get yourself a pen and notepad, and write down a list of bullet points of things you mean to do. Leave plenty of space to expand on each point. Later you can line through each point as you clear it. For now I would flip back through the booklet or even just the contents page to see if there are any point to add. Now add target dates to your to do list.

That is your action plan – good luck.

I welcome feed back – useful anecdotes that I can include in the next print run are especially welcome:-

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