LODESTONE CONSULTING

No-Stress Systemization

Twelve Simple Steps that Make Your Business Work for You Quickly - Without Spending a Dime on Management Consultants or Expensive Software

- [ ] 1. Everything begins and ends with the Customer
- [ ] 2. Sell what your Customer wants to buy, not what you want to sell.
- [ ] 3. Leverage resources to maximize production and sales.
- [ ] 4. EASY beats them all, hands down
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Introduction:

Starting and running a business is a major undertaking. Putting in long hours and more money than you ever expected to have to are almost standard. Then there are the years it takes to build it up and stabilise it to generate consistent profits.

At the end of the day, you'll want to retire and pass it on to your children, or sell it. Either way the business needs to be fit for sale.

The obvious value of any business is its customer list. Many retirees end up selling their client or customer list because it's the only real asset the business has. And then, it's usually sold at a discount on actual value to cover the reality that a number of those clients/customers won't transfer and some of the remainder are not attractive to the buyer.

Ignoring the market value of land and buildings the business may own (because that value is usually independent of or impaired by the current use) the other assets that build value in your business are your systems.

The extent to which you develop and maintain effective systems will significantly impact the price a buyer may be willing to pay for your 'goodwill' because this, above all other factors, indicates how well the business can run without your involvement, and without significant additional attention or investment.

Michael E. Gerber's "*The E Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*" is widely regarded as essential reading for the owners and managers of small and medium sized companies.

Unfortunately, the majority either haven't read or haven't understood the book. This has allowed the growth and development of a mini-industry teaching that your success as an entrepreneur lies in working on, rather than in, your business.

True, Gerber does distinguish between the different roles you as owner have to fill. But, according to him, the book is about four ideas, and those four ideas only:

1. The belief that "small businesses are started by entrepreneurs risking capital to make a profit" is false.
2. The Turn-Key revolution is changing the way we do business
3. The Turn-Key revolution requires a Business Development Process
4. This Business Development Process can be systemized and applied purposefully.

Naturally, you can't systemize a process you don't have. True, most organisations have processes and systems but the essential question for an owner is:

Does my business run just as well (or even better) when I'm not there?

I was fortunate to do my accountancy training with one of the Big 4 Firms (KPMG) and even more so to do it in their Business Development Services division.

Client audits were segregated on the basis of whether they were substantive or systems audits. A substantive audit tests transactions. A systems audit tests the processes and systems on which the business relies.

The majority of small and medium sized businesses are in the substantive audit category, i.e. the business lacks appropriate processes and systems and/or the processes and systems in place cannot be relied upon.

There is far more to having a good business development process than simply documenting what happens and what is done. Policies and procedures that don't add value will hinder you.

Yet the customers and staff of every business can point to examples of systems and processes that make life harder, waste time and money, and achieve no valuable end.

Two of Steven Covey's 'The 7 Habits of Highly Effective People" are:

Habit #2 – Begin with the End in Mind; and

Habit #7 – Sharpen the Saw.

It is easy to lose sight of the big picture when we're down in the detail. And equally easy to allow our edge to become dull, our keenness to be blunted. Here are twelve simple steps that will help you keep your saws sharpened and your eyes on the prizes:

1. **Everything begins and ends with the Customer**

   It's got to be about your customer, that's who pays your bills after all. But not all customers are equal. So review your customers and classify or categorise them according to criteria that are meaningful to you and relevant to your business.

   Go the extra mile and 'fire' the bottom 10% - these are usually the most troublesome and least profitable ones and very often are net loss accounts.

2. **Sell what your Customer wants to buy, not what you want to sell**

   I am continually amazed at how many businesses break this golden rule. While it may be true that your prospective customers do not know what product or service they want, they sure as hell know what problem they want to solve, what itch needs scratching.

   The easiest way to find that out is to talk to them and listen to what they have to say. And the added bonus is you'll get first-hand knowledge of the barriers to sale, i.e. what they don't like about the product or service or other factors that make it difficult for them to buy.

   Once you've identified a solution you can sell, you need to ask what fits with what and who buys it? What else could be in there? Who else might be interested? Know how your offerings complement or compete with each other. Know where your customers congregate and what else they are looking for.

3. **Leverage resources to maximize production and sales**

   Classify and categorize all your products and services. Know your pricing, your costs and your margins. Look at your break-even point for each product, service, group or category. Consider the resources needed to create and deliver each one.

   How much capital is tied up in production and stock? How much fixed labor cost? What are the shrinkage and spoil rates? Which have increasing demand and improving economies of scale? And which are going the other way?

4. **EASY beats them all, hands down**

   The rule of thumb for differentiation is Better, Faster, Cheaper, Nicer.

   But EASY beats them all, hands down. We're like water flowing downhill – always looking for the path of least resistance. Make it easy for your prospects and customers to buy from you, and to come back and buy again.

   Internally, how much effort does each product/service take to create and/or deliver? Are they all worth the effort? Compare and contrast by level of effort, resources, sales volume and profitability.

5. **It's a numbers game**

   Accountants are typically caricatured as 'bean-counters' with little relevance to sales and marketing. But running a business without advance knowledge of key ratios and performance metrics could be a recipe for disaster.

   Having helped several clients 2X and 3X their sales and profits in 12-18 months (and sometimes less), I usually start by calling the owner or CEO up without warning to ask for the daily sales and cash figures. I'd say 8 times out of 10, they wouldn't know off-hand. So I'd keep calling every day until they did know. The businesses that grew the fastest were those that allowed me to post the daily sales on the company notice board, highlighting best day/week/month etc.

Sales are great, but…selling at low margin can be a lot of hard work for very little return. So you need to know your gross margin for every significant product and service and for each material customer or client.

Costs are usually divided between fixed and variable. The thing I've noticed though is that fixed costs rarely are fixed – they're like mushrooms – they grow in the dark. Unless you shine the light of critical questioning on them, they'll keep on growing.

You need to know your breakeven point? How has that changed over the past 12 months? How will it change in the coming 12 months? What can you do today to reduce it?

How much volume do you need to do to be viable? What level of sales do you need in any one category for it to be a viable market for you?

I could go on (and on and on) but I reckon you get the idea.

6. **Beware the 'hidden factory'**

Armaund Feigenbaum coined the phrase 'hidden factory' to describe process costs created by poor quality and waste. They are unplanned and not directly recoverable. Often, they are invisible. Typically, they occur when defects are allowed through the business process.

This reduces the value delivered to the customer and also increases the need for re-work. He estimated that 20% - 40% of an organization's total cost was absorbed in this manner.

Lean defines waste as activity that doesn't add value from the customer's perspective. I am not as strict as that, mainly because the customer or consumer is often not in a position to have an informed opinion. I prefer to categorise waste as anything that an informed customer would not value.

We're conditioned to think in simple terms. The median US salary (2022) is $1,073 per week. Let's say your staff work a 40 hour week. The paid hourly rate is $26.825.

But the real cost is much higher when you consider payroll taxes, insurance, annual leave, sickness, public holidays etc. and any other benefits such as pensions etc.

And we haven't even looked at productivity. If 30% of your average employees time is wasted, then the ratio of value (0.7) to cost (1.0) is 1:1.429. So it's quite possible for a worker being paid $26.825 an hour to be costing upwards of three to four times as much per productive hour - $80 - $107 an hour. (YIKES!!)

And you need to be able to sell this at a profit!

7. **<u>What is the best possible use of your time?</u>**

I had a boss who challenged me to ask if the task at hand was the best possible use of my time. This worked well, until I concluded that I had many better ways of using my time than hanging around his office waiting for him to get off the phone.

Using your self-knowledge and knowledge of your staff, as well as knowing what return you need on each person's time, make 2 lists:

(a) All the tasks you shouldn't do – no matter what.
(b) All the tasks that should be done and who should do them.

Then stop doing everything you shouldn't be doing.

Allocate tasks to specific people and hold them accountable and responsible.

If you don't value your time, no-one else will. If you don't lead your business, someone else will, but probably not to your requirements or liking.

Management and manufacturing both derive from the Latin word 'manus' meaning hand. So managing is 'hands-on.'

The principal functions of management are to plan and to control. The overwhelming majority of 'managers' do not plan in any meaningful way and have no effective means of control.

The easiest way to improve planning is for you, the owner, to set the overall goals and work with your team to define the objectives, strategies and actions to reach those goals.

That is your plan – it can be done in an afternoon.

The easiest way to control your business is to firstly control your own activities and secondly to have your team report on how they are delivering on the plan.

8. **Cash is King**

Nothing happens without cash. You need to know not only how much your operation costs to run, you also need to know how much cash that will demand. And then make sure you have enough.

Cash sitting in your safe or your bank account is an asset you can use. Cash sitting in the form of stock and work in progress, unbilled work, and outstanding invoices to be collected are not assets until you turn them into cash. And that will cost you money.

I recently worked with a client with an apparently healthy billing and collections process. However, unbilled work was treated as current receivables. And there were material amounts of work completed more than 12 months prior and still not billed.

As well as fundamental questions about why this was allowed to occur and was not addressed, there were reasonable doubts about the collectability of these amounts. And an inevitable reckoning when

cashflow projections based on inaccurate collectibles met the reality of banking covenants and commitment to creditors.

Bills you have to pay can underwrite your cash until they have to be paid. And they will always have to be paid. Relying on your creditors for additional working capital can expose your business to risks, especially if or when you lose a significant sales account or a customer goes out of business owing you money.

An unprofitable company can survive so long as it has cashflow. A profitable but cash starved business is doomed to failure.

9. **Pay Yourself First**

If you're typical of entrepreneurs, you're working more than 50 hours a week. What value do you place on your time?

How much would it cost to hire a consultant or interim manager to run your business if you were sick.

If you become permanently incapacitated, how quickly and at what cost can you find a suitable replacement?

Decide how much salary you want or need to take and pay yourself before paying anyone else.

If you can't do this and meet all your bills as they fall due, either you are overcharging for your effort or your business is in trouble.

Clients often justify not paying themselves first because the business is just getting started. Fine, but the start-up phase should have a definite measurable end, either in terms of results or by a certain date.

Paying yourself first is possibly the most important practice you can develop.

It gets you in the habit of paying your bills on time and that can have a dramatic impact on your reputation. In contrast, not paying yourself first makes it easier to not pay your creditors on time, or at all.

Paying yourself first also forces you to confront your own cost and contribution, before considering other factors. If you are worth your package, the positive results should be obvious. If you are not, that will be equally obvious.

Deal with the issue instead of masking it by not taking salary.

10. **Prepare for Growth**

Matching supply with demand is a dark art at the best of times. Adjusting operations for reduced demand is fairly straightforward. Start with controllable and variable costs and work from there.

Coping with success is a whole different ball-game. You're not going to commit capital and resources without clear indications they'll be needed and will generate a return. Trying to fund significant growth from working capital places enormous stress on the business and can ultimately lead to collapse.

Unfortunately, many small businesses don't adequately anticipate and prepare for success and growth. This can create unmanageable dis-organization, characterized by urgency and fire-fighting, unbalanced workloads, reduced profit margins, lower quality and higher defects with increased churn among staff and customers.

So it's essential to know:

- How much of each product or service can you produce and/or sell with your existing set-up?
- How easily can you ramp up production and/or sales capacity to meet growing demand?
- What effect will growth have on your roles?
- Will you be able to continue to "produce" while running a larger, busier organisation?
- What extra help and resources will you need?

Now is the time to start planning for and identifying these resources.

11. Apply the Pareto Principle

The Pareto principle, commonly known as the 80/20 rule, holds that the majority of results of any one kind are caused by a minority of efforts towards those results.

The 80/20 rule is commonly quoted to suggest that 80% of sales value comes from 20% of customers, 20% of your employees produce 80% of your output, etc.

The key to using this principle is to identify the results from each effort and then:

(a) maximise the efforts that create a disproportionate amount of favourable results; and

(b) minimise efforts that waste time, energy, and money.

Be careful not to confuse coincidence with causality or correlation.

Starting with yourself identify those hours that produce the majority of your desirable results. It may be that you generate 75%-80% of your income in as little as 8 to 10 hours a week.

Continue this analysis for all personnel and material activities.

Reorganise your operation to focus on those efforts which achieve the results you want and cut off from wasteful activities, including behaviours, staff, suppliers and customers.

You can boost your results further by doing an 80/20 on the 80/20, i.e. what is the 4% of work that is creating 64% of your desirable results?

At the other end of the scale, what are the products and services and who are the employees, customers and suppliers that generate the lowest returns? If the top 20% deliver 80% of sales or profits, is it reasonable to ask whether the bottom 20% deliver 80% of the losses/costs/waste? Absolutely.

You can make an immediate, dramatic positive impact on your top and bottom lines by eliminating the bottom 20% from every class of activity, be that discontinuing unprofitable lines of product or service, eliminating difficult and/or inefficient suppliers, 'firing' unprofitable accounts, letting unproductive employees go or shutting unprofitable locations.

Unfortunately, most owners and CEOs are very reluctant to cut sales, even when those accounts are costing them money. Similarly, when companies decide to cut costs by reducing payroll, they rarely focus on the 20% of the workforce that take 80% of the wages.

12. **<u>Prepare a detailed activity plan for everyone in your organization</u>**

Based on what you have learned from the preceding steps, create a detailed action and activity plan for everyone in your organization (including contractors and professional support firms, e.g. accountants and lawyers) for the coming months, focussing on:

- what should be done;
- who should do it;
- what the expected outcomes are;
- how they can be recognised or measured;
- how they relate to income, cost and profitability; and
- how they contribute to customer and business development.

Then devote an hour to sketching out the next phase for when you achieve your goals and deliver on your plan.

'No plan survives first contact with the enemy'

Paraphrased from Helmut von Moltke, Prussian military strategist (1800-1891), this warns us that no matter how comprehensively we plan, reality is inherently unpredictable.

And that is true, to a point. And that truth is meaningful and useful, to a point. However, if we allow it to deter us from planning, or from expecting our plans to come to fruition, i.e. achieve our goals, then it is a hindrance.

The purpose of a plan is to allow us to be well prepared for the adventure ahead. In and of itself, the plan is unimportant. What matters is the goal.

Conclusion

In this short paper, I have outlined 12 simple steps that will help you to quickly create and systemize your business development process without the need for management consultants (like me) or expensive software:

1. Everything begins and ends with the Customer
2. Sell what your Customer wants to buy, not what you want to sell
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These will help you keep your eyes on the prizes:

A smoother, more efficient, more profitable business.
Happier customers, suppliers, and staff.
More focused and productive staff.

Then you're in the running for the freedom you want and deserve.

Lodestone Consulting Limited is a small firm based in Mullingar, Ireland.

The company was founded in 2002 by Paraic Bergin to meet a need for financial advice within his personal network. Over the succeeding 20 years it has expanded to include project and operations management as well as marketing and business development services for clients in Ireland, the United Kingdom, the Middle East, Asia, Australia, the USA and Canada.

Serving the owners and CEO's of small and medium sized business, the firm offers training, consulting and executive coaching.

With significant experience in recovery and turnaround, it also provides interim management, company restructuring and reorganisation services, as well as preparation for investment, expansion or exit.

The company offers training and coaching services at fixed prices and duration.

Consulting and management services are generally offered on a retainer plus success fee basis.

The company also provides services at a fixed hourly rate for those clients who prefer certainty or where success fees are not appropriate.

As there is significant preparatory work involved in taking on a client assignment, fees are payable in advance of commencement. For the same reason, refunds are not given.

However where a client has taken reasonable steps to implement the suggestions and recommendations given and has not achieved the expected results or benefits, the company will continue to work with the client past the end of the engagements at no additional cost until the client has at least recovered their investment in full.

If you would like to know more, you can schedule a complimentary introductory call here: https://calendly.com/paraic-bergin/intro