

Successfully  
Navigating  
the  
Downturn

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# Dedication

## **To my wife Diane Todrin**

After 32 years of peaks and valleys, opening and operating over 56 distinct businesses, most ultimately a success, my wife has stood beside me through thick and thin, rich and poor, good and the not so good times. I am eternally indebted to her for supporting my doing whatever I wanted in my business arena. She is a saint. I dedicate this work to her; she has earned it.

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# Disclaimer

The advice given in this book should not be construed as legal advice or tax advice. Consult your lawyer or tax consultant as appropriate prior to implementing changes.

# Ready for Battle

If you haven't noticed, it's a war out there. In any economy, building a small business is a challenge. When revenues shrink, the fight for customers and their dollars can be the ultimate fight for survival. Yet, if you blame the economy or come up with any other excuse why your business is not flourishing, then you aren't fighting for your company.

Here is the most frequent excuse I hear from owners with an underperforming business, "The economy is bad."

You make or break your own business. Take responsibility. Look around and you will see there are businesses doing very well. Why you ask? Because they are not concerned about excuses, only action plans and good business practices that result in growing sales and profits.

There are successful businesses opening and operating in every economy, every day, every season, every year that are located next door to failures. If we truly believe success or failure is a function of external forces, we are doomed, as external forces always happen and are typically out of our control. Since we cannot control these factors but can control our own business practices, we must direct our energies towards that which we can control as we chart our business course to reflect necessary and appropriate changes.

This book is not an A-Z textbook on running a small business; there are shelves full of them, mostly in college bookstores. This book hones in on the essentials for operating a successful small business in this fast changing battle zone.

There is a multitude of books that focus on one aspect of running a business such as branding, sales, and finance. It's not uncommon to have a pile of must-read books gathering dust at the bedside as more pressing demands fill the precious time allotted for reading. This book reports from the trenches with advice you can only learn by trial and error, from tying into what is working in the marketplace and what is not.

While most books are written to be read from beginning to end, you can pick this one up and thumb through the table of contents to find topics to help you solve your most difficult business problems or

to help you grow a more profitable business. Each topic is short and succinct so you can read the book in short increments and implement strategies as you go.

I encourage you, however, to read even those sections that you think you're good at, because it's easy to forget what's important after living in an economy where revenue flowed freely. So, jump in anywhere and read as much as you can when you can, then implement.

It is a wonderful spirit we nurture in this country, where anybody can dream, open a business, and succeed. Success will come when you have a plan and business skills, and only if you adapt and keep up to date with the needs of the changing world around you.

# Surviving the Downturn

## No Business Will Escape...Prepare

Every business will be affected by this economic meltdown. There is no escaping. Those that think they will escape are fooling themselves.

The root causes are universal and will affect every business, and it's called the domino theory. I spoke with my insurance agent, and she reported revenues down over 30 percent. "Why?" I asked, "It makes little sense, people are not yet taking their cars off the road, are they I asked?"

"No," she responded, "but they are not buying new cars so the insurance premiums are less, and people are reducing their coverage to lower their bills—it amounts to an overall 30-percent decline."

She added, "And defaults are up for non-payment." Her hours were cut as were her staff's.

A produce delivery business I represent, which I assumed would be relatively immune to the downturn, is likewise experiencing a deep reduction in revenues. People are not eating out as much, the small business owner reports. Thus, consumption at restaurants is down, reducing his revenues by 30 to 40 percent. He is making fewer and smaller deliveries.

We need not discuss the auto industry, the housing market, and therefore, the trades and businesses that are supported by these markets. Can you even imagine the depth and width of their tremor?

Of course, the financial markets lost tens of thousands of jobs nationally. New York City alone, experienced a 20-percent decline in its revenue flow as a direct result of the reduction in the financial market.

The unemployment statistics are very sobering. Depending upon whose numbers you are looking at, unemployment is at least 10% and another 5% are no longer looking and thus not counted.

Even Microsoft laid off 5000 people that year.

It's the ripple effect that will undo us all. Fewer people working, more foreclosures, less purchasing power. It affects every business. The reason gas prices have declined so much is a direct result of less demand for fuel. Factories, trucks, and yes, cars are using less fuel. Can you imagine the amount of reduced demand required to reduce gas as much as it has? It must be huge.

Of course, this is also a global issue so imports and exports are also declining providing additional momentum to the slow down.

I hear some small business owners believing the bottom is near, that they are surviving, that they are OK, and that they expect to persevere throughout the recession with modest adjustments. These small business owners are kidding themselves. The bottom has not been reached and it will be a long slide until it does reach the bottom. We are in for a 5 to 10 year disaster. Everyone will be affected, every business will be reduced.

Plan, adjust and prepare. Failure to do this will be at your own peril. There is no escape. Downsize, do your preemptive workouts. Market effectively and you can not only survive, you can maintain profitability.

Failure to adjust will end in a slow death...or maybe a rapid one.

## **Learning from the Greatest Entrepreneur of All**

I recently read the book *1776* by award winning author David McCullough. It was, of course, the story of the first year of the American Revolution. During this year, the Continental Congress commissioned Washington as the Commander in Chief of the Continental Army. In and of itself, his appointment was a leap of faith as Washington had limited battle experience and absolutely none in small skirmish or large-scale war strategy.

Worse yet, he had few experienced leaders capable of handling the men in the field. His troops were completely untrained, had few arms, and little ammunition. The men came and went as they pleased depending upon weather and family needs at home. Sickness often disabled as many as one third of his men at any given time.

Even worse, they were confronting the greatest army and navy in the world at that time, well trained and well armed. The Navy comprised 400 ships armed with hundreds of guns. The revolutionary forces had no Navy, few guns and were badly outnumbered by a ratio of ten to one.

In the winter, the revolutionary forces had no tents or uniforms and insufficient clothing and shoes to keep them dry and warm. It was, in a word, pathetic to consider this ragtag band of farmers, hunters, and a few aristocrats an army. It was an undisciplined, untrained, unarmed, unequipped, band of passionate men who fought among themselves and had no idea as to how to conduct warfare.

Washington's strategies were most often wrong. His lack of experience led him into one defeat after another, yet he persevered. That is the quality of an entrepreneur. The one characteristic used most often in reaching the desired goals, not experience, intelligence, or skill, but perseverance. An entrepreneur refuses to lose, rejects defeat, insists on reaching the goal no matter how slim the odds or likelihood of victory.

The revolutionary leaders had bet everything they owned including their lives. They gave up their families, power, wealth, and comfort to battle against the most formidable force in the world knowing that should they lose the war and survive, they would all surely hang. Yet, against the most impossible odds imaginable they persevered.

This is the true hallmark of an entrepreneur, perseverance, and George Washington demonstrated this trait to the greatest degree imaginable. When the going gets tough, we can all take a lesson from Washington, as ultimate entrepreneur. He gave birth to the most amazing business the world has ever seen against the most severe odds any entrepreneur ever bet against and he won, giving life to America.

When your situation seems grim, and the challenge is seemingly impossible, too difficult to go another day, remember George Washington and his example of perseverance. Then do it. Persevere. He won so we could enjoy the freedom to fight our own battles safely and securely. We can never give up or we will be dishonoring his brilliant entrepreneurial victory.

## **How Long Will This Recession Last?**

There are many conflicting opinions regarding the length, depth, and difficulty this so-called recession will cause us all. The world financial markets will have a huge impact on our recovery, as they too have a tremendous impact on what happens in our financial markets. The academia and the economists all hedge, some

suggesting that this recession will last at least through 2012, but they say this also depends upon what actions our government takes to shorten it. Others say it is a ten-year trough, with small incremental growth after we eventually bottom out.

Unfortunately, I agree with the second opinion about a long-term change in economy for the following reasons. Unemployment will continue to rise as more and more jobs will be eliminated. According to a CNN Money news report, "The hemorrhaging of American jobs accelerated at a record pace at the end of 2008, bringing the year's total job losses to 2.6 million or the highest level in more than six decades."<sup>1</sup> And there is much more shrinkage coming. Once gone, rebuilding the workforce to reflect the previous economy will either take a long time to accomplish, or in all likelihood, will never happen. Once gone, gone forever. Different people will be filling different jobs during the recovery, and this will take time. I believe the financial downspin can be reversed in a few years, but it will take five to ten years to rebuild to where we were at the first point of decline.

Further, the second influence, which will help determine the duration of the recession, is the recovery of the world's financial markets. The influence is very substantial in both directions: our influence on the world and the world's collective influence on us. If every country succeeds in stemming their economic decline as fast as possible, we could be out in 2-5 years, but this will not happen. There are likely to be mixed recovery results among the countries with the most influence. Some will be more successful than others. Some will do a lot worse. Thus, the overall impact will be an accumulation and average of all the various degrees of success and failure. So, the recovery period for the world, including the United States, will stretch further than some are projecting.

Of course, there is also the question of what our government does to reverse our economic downspin. If we implement the correct strategies, we all win and will end the decline sooner.

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<sup>1</sup> Goldman, David. "Worst Year for Jobs Since '45," [www.cnnmoney.com](http://www.cnnmoney.com), January 9, 2009.  
[http://money.cnn.com/2009/01/09/news/economy/jobs\\_december/index.htm](http://money.cnn.com/2009/01/09/news/economy/jobs_december/index.htm) (accessed March 2009).

If we guess wrong, and it is a guess so it seems, we stay in recessionary economics for many more years to come.

Given that wager, I will bet our government leaders will not make the best moves all the time, which will extend the economic downturn and slow the recovery period for a long while.

To successfully exit this recession requires fixing some of the other major issues in our economy, which will take time, effort, and a huge investment, as well as political leadership and success. This includes defining and implementing a viable energy policy, defining and implementing a workable healthcare strategy, and overcoming the political issues preventing resolution to date. We also need to repair our social security program, so our elderly will enjoy a respectful contribution to their retirement. We need to address the massive unemployment level and the destruction of the housing market along with the deflation of the real estate values for the economy to rebound as soon as possible, or it will stall until they are resolved.

I say, you must prepare for a five- to ten-year cycle, which means we cannot look back. We must look at today's condition and understand that this is what we will be working with for the next five to ten years as we slowly pull out and rebuild, with different economic engines, a different workforce, a different energy policy, a different health care system. Five to ten years folks, so start redefining your business model to accommodate the changes today.

We must recognize this as a huge change of direction, and everyone must use this to define a new way or be lost forever. Yes, this is not just a speed bump we can wait to pass; it's an absolute change in the way we will be doing business for a very long time.

My best advice for small business owners is to re-evaluate your core business equations, force profitability immediately by making whatever changes are required, downsize in a word, reinvent your business by focusing on long-term permanent changes that develop profit, not gross revenue.

## **Be Positive and Defeat the Downturn**

After one of the biggest stock market drops in recent times, the morning's news used the word panic in describing the steady decline. Panic, fear driven, not based on fact but on emotion, has tremendous power, the power to change the direction of business.

We all have a choice. Do we follow the trend and give in to panic, throwing our hands into the air and accepting self-destruction, actually accelerating it, becoming a part of the panic, stimulating more?

Is there an alternative? Yes, of course there is, as change is an opportunity for advances, if you dare. We are definitely confronting change. The question is: are you going to take advantage of it or are you going to allow yourself to be buried by it...it's your choice.

There is much you can do to take advantage of the situation: new marketing ideas, a positive attitude, a no-problem attitude, separating yourself from the crowd of competitors who are singing the blues and accepting defeat. Stand out, take a positive stand, market with positivity, and stimulate a positive response. People want to be positive. People want a reason to not panic, so give it to them. They will respond. Market with creativity and positivity and the clients will line up and take tickets to get into your front door. If you accept a doom and despair attitude, you will follow the crowds down that path to self-destruction.

Small business owners have choices, many. Make the right choices today and see the results tomorrow. It's not just about price, tell the market your differences, the reason they should shop with you, provide them with added value not price discount and watch your business grow in a down market.

Be a leader and the people will follow. Small business can lead us out of this financial crisis, just as the small banks are healthy, small business is also healthy, if you choose to be. Buy into gloom and despair and your wish will be fulfilled.

Start with your employees, move to your vendors, and then support your customers, and your market area. Announce the good news and everyone will line up.

## **The Quick Response Strategy**

I believe one of the most powerful aspects of small business is its ability to turn on a dime, make changes in an hour, a day, a week, and take advantage of changing circumstances, trends, and new ideas or adjust in response to profitability or losses.

While it may take large corporations months or even years to evaluate a situation, create new strategies and then implement a new plan to effect a change, small business can do it overnight. That's powerful but if a business does it.

I constantly see businesses that stagnate doing the same thing every day irrespective of the results. Usually complaining, using the excuse that they do not have adequate cash to make changes. Changes of strategy do not necessarily require huge investments of cash, just clear thinking and effective implementation.

In his book *Crazy Times Call for Crazy Organizations*, Tom Peter tells a story that illustrates an important point. Here's my summary. Paul Volker, past Federal Reserve Chief, was talking with one of Japan's most successful foreign exchange traders and he asked him to name some of the factors he considers when evaluating possible trades. He answered by saying, "Many factors, sometimes very short-term, some medium, and some long-term." Volker then asked what he meant by the long-term timeframe. He thought for a moment and responded, "Probably ten minutes!"<sup>2</sup>

I wonder what short term was.

While it is true most of us are not in a market so volatile that it requires considering ten minutes as long term, but the point is well made. Business owners need to address their business as the above mentioned trader does, with a current view.

If you are making money, figure out why and do more of whatever is most successful. If you are losing money stop whatever you are doing and make changes immediately. Make a change today and see the results tomorrow. If it's good, do it again; if it is not, make another change. That's what small business can do that big business cannot. Unfortunately, most small business owners remain committed to the same actions and expect better results every day. It will not happen without change.

I see it all the time, small businesses doing the same thing every day, every week, every month, not daring to utilize the most effective strategy available, change. Identify new ideas, new markets, new strategies, and implement them boldly and with commitment.

In some instances, we are talking about internal adjustments, which requires monitoring your company's performance so trends can be spotted quickly and early, giving you the opportunity to make changes early in the cycle as opposed to after you have lost your way.

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<sup>2</sup> Peters, Tom. *Crazy Times Call For Crazy Organization*, (Vintage: CITY, 1994). Page 6.

Other aspects of this quick change strategy have more to do with directional changes that have greater impact, major marketing changes, major production changes, make or buy decisions, and so on.

Both are important and both must be addressed as part of the business owner's strategy. Quick changes must be part of every small business owner's strategy for success.

This applies to personnel issues as well. Small business owners hold onto ineffective employees way too long. They fail to understand that a successful small business must closely monitor and adjust its employee base always looking for the best possible team.

Pricing is also a frequently stalled evaluation with small business owners failing to understand the need for profit and fearing that raising prices will result in lost sales, as opposed to understanding the value of their products and pricing them appropriately and profitably.

Marketing strategies that don't work yet prevail indefinitely, brokers that fail to produce yet are held on forever, salespeople that are paid with a salary instead of using a reward based commission program. Changing or expanding your target market.

The opportunity for change is limitless; the only real issue is the reluctance of the small business owner to leap into uncharted waters and dare to respond quickly and effectively, making changes all the time. Do it.

## **Learn New Skills or Perish.**

Men go to work, that is what they do. But in this economy you must learn new skills or perish.

My wife went away with her parents and sister today for a long weekend to visit out of town family. She asked me what am I going to do, and I thought for about a second and said...work, what else. To me and every other small business owner, work is not drudgery. It's not as if we are going off to the salt mines; it's what we do. It is how we become successful. We compete in the business arena, and success is our motivation. Money may be our reward, but success our goal.

"So what," you say, "we all know this." There is a very important entrepreneurial skills you have developed and honed over the years. The knee jerk reactions is to work harder, put in more time and sacrifice yourself, taking no paycheck, investing your IRA, insurance

cash values, credit cards, and then moving on to absorb every other available dollar you can reach, from family, friends, anyone with cash.

It won't work. Instead, you will waste all the dollars you invest and put your family in harm's way. Your home mortgage will not get paid, cars will be repossessed, savings drained, utter personal destruction, while the business fails to respond favorably.

The business owner must do things he abhors, but if he is to survive the current changing conditions of massively reduced revenues, increasing overhead, choking debt. He must change his strategies rapidly in order to survive and emerge.

Downsize as deeply as possible. The most common mistake is to wait too long and not cut deeply enough. Reduce debt by working it out, going into default as soon as you see what is occurring. Stop paying on your credit cards and any other nonsurvival debt obligation.

Reinvent your business model, emphasize profit, not revenue, and make major adjustments that will support your new mission.

Utilize internet marketing and social networking, its time is here. Stop being stubborn. Yes it is new, different and hard to understand, but it will control our business future. Get on board, get help, get it done.

The business owner doesn't want to take any of these actions, and so often we see them wait too long, absorbing unaffordable losses, preventing the reinvention, survival, and re-emergence of a profitable business. The normal tendency, under such pressures, is to work harder and longer doing what you have always done, and this will not work in the current economy. The objective is to understand where you are and further understand the changes you must make. It is not business as usual. It is upside down and backwards to what you have always done. Unfortunately, failure to change as soon as necessary can be fatal.

## **15 Rules to Survive the Downturn**

I understand the reluctance of small business owners to make major changes before they are certain what is going to happen in an economy. When faced with a financial downturn, here are the rules of engagement to successfully recast our businesses and succeed in the new economy.

The four pillars for successfully navigating the business world downturn:

- A. Downsize and tighten the systems. Controls are critical.
  - B. Reinvent yourself, consistent with the most profitable operation you can create with the least investment.
  - C. Do your Debt Workouts.
  - D. Internet marketing, social networking, figure it out.
1. Downsize immediately, even if you think you're fine and immune from the changes, no businesses one will escape unscathed. The market is suffering, unemployment is growing, people with jobs are not buying, real estate is crashing, and credit is scarce. This will all have a ripple effect throughout the country. If you're doing fine, downsize anyway. You can deliver the same amount—or more—with fewer people by increasing their productivity...it's true. Downsize drastically, forcing profitability by reducing your overhead and increasing productivity; it can be done!
  2. You cannot wait another day! Install a key indicator system to track your business and have daily, weekly, and monthly financial reports issued. Follow profitability per job, per week, per client, per product. Make nothing that does not bring in a profit.
  3. Evaluate and eliminate excessive debt, based on your downsized business model. Yes, this too can be done through debt workouts.
  4. Flatten your management system and add incentive based rewards throughout the business.
  5. Reduce inventories at any cost, create cash.
  6. Reduce overhead wherever possible.
  7. Train and cross-train everyone to be better, more skilled.
  8. Review your marketing program and reduce the traditional approach; use the Internet and focus on existing clients first; get more out of them. Internet marketing will save many companies; it's called the long tail theory. Read

about it in Chris Anderson's blog ([www.thelongtail.com](http://www.thelongtail.com)) or in his book by the same name.

9. Resist profit-eating sales and discounting, giving away your profit for no good reason; compete with service, quality, and uniqueness. Create a niche and have a competitive advantage. The big box stores cannot compete with you!
10. Emphasize service; it's the small business competitive advantage, its strong suit.
11. Reduce your focus to your most profitable products or services, joint venture for growth and development. It's cheaper and far more effective, faster too.
12. Expand geographically if possible. Internet marketing can take you anywhere, especially if you can create an expertise, or a unique specialty, or a special item or service...find what you do that is unique and do it as large as possible. Of course you can out compete the big boxes just be smarter and stop trying to compete on price alone.
13. Manage effectively. Flat, incentives, key indicators, financial reports, productivity control, profitable sales and effective marketing...get smaller first and more profitable, then grow slowly and carefully.
14. It's all about quality, that's what wins in the long run; never forsake this principle.
15. Consider vertical growth if you have the right product...if you make it or are prime, distribute it, wholesale it, and retail it, as well as going direct to the consumer through the Internet.

As soon as you determine you cannot make the transition, stop, liquidate, and milk the company of its cash. Eliminate all but the critical employees and wind it down as quickly as possible.

The horse is out of the barn, but there is still time to close the door...quickly. Get better, get smaller, get out, or be forced out. Your choice.

## Downsize

How does it make sense, downsize even if you are still on a growth curve or holding steady? There are a many examples and the resulting effects. Mobil Oil even with 30 percent reduced revenue had a record breaking profitable year because they reduced overhead and reduced payroll to support the anticipated downturn. Like many Americans today, the business world is too fat. It needs to go on a diet.

Harvard University has the largest multibillion dollar bankroll and endowment in the university world. In view of its reduced value, having lost much on the stock market, it is still incredibly wealthy, and yet they laid off professors and embarked on a belt tightening austerity program. Why? Is it over responding? No, it makes perfect sense.

Increased overhead and excessive payroll are a constantly recurring disease. It is always present and frequently peaks, showing its tenacity. Growing overhead, especially too much payroll, are easily overlooked while an organization is on a growth curve as revenues are abundant and profits significant, but those are the largest cost factors. Excessive spending must be avoided in good times and routed out in bad times. It is waste that must be beaten back and controlled.

Inefficient business growth results in paying your employees overtime as well as adding employees required to handle the expansion...low productivity. In addition, there are other expenses such as additional computers, trucks, or machines; more vacation pay, insurance, and so on. A better response is to increase productivity and hold the addition of new employees and overtime down to a minimum. Be like Mobil. Reduce payroll, overtime, and expenses, and you will increase profit in times of decline as well as in times in growth.

Growth by getting better and smaller not by getting bigger and paying more is a far better plan. The kneejerk response of adding employees and working overtime is the first instinctive decision and the wrong one. We must resist increasing overhead to accommodate higher demand and focus on training, incentives, team work, all contributing to greater productivity without increased overhead and payroll is the best answer to increased demand.

We are in a recession and most businesses are experiencing reduced revenues and lower profitability. They require downsizing,

tightening procedures, controlling expenses, and holding on to profitability as best as we can. Yet, others are experiencing growth and seem immune to the recession. Some industries are in higher demand because they are recession proof. Used cars and auto mechanic shops are in greater demand as people are fixing or buying used rather than replacing with new vehicles. Despite the overall downturn, there is room for growth and expansion for some.

Yet, there is another reaction to an economic downturn, it's the business that may be experiencing a decline or an increase but takes out the cleaver instead of the surgical knife and cuts deep, very, very deep, deeper than the revenue reduction may require. Overcutting, some may claim, with unnecessary layoffs, is taking advantage of the downturn to lose excessive employees and reduce overhead—making the business leaner and meaner at the cost of employees. In reality it is making up for years of unnecessary growth and development, cutting out the fat leaving the meat.

Thus, if you are losing ground, holding your own or even expanding, cut, cut, cut payroll, workforce, and overhead. I guarantee you have too much, and if your efforts are focused on getting better not getting bigger, you will be around a lot longer irrespective of the economic climate.

Follow what Harvard and Mobil Oil are doing...allowing this wake up call, the recession, to drive home the point that we have overindulged, and all must tighten our belts and cut back, irrespective of the revenue and profit picture, be it growing, holding its own, or declining. Cut your overhead and tighten the ship, get better not bigger, even if you are growing.

## **The 6 Biggest Downsizing Mistakes**

Downsizing was not in the 2009-2010 year plan for most small business owners. No one predicted—or could prepare for—what is happening to our economy, and certainly no individual small business owner can be held responsible for his company's downturn in an economic situation outside of his control.

However, failure to respond adequately and appropriately is an error we can avoid, as we can control the action and response we make in response to the changing economy.

Here are half a dozen major stumbling blocks to review and consider in your downsizing plan.

#### Mistake 1: Underestimating the severity and length of an economic downturn

Be stone cold realistic. Acknowledge immediately, that this is not a trend that will soon reverse itself, but is a new reality. Our economy is severely damaged, and what we have now is what we are going to have for a long while—years—and then we will slowly grow a little at a time. We will not see the burst of acceleration in values and growth and development that we experienced in the previous ten years again for a long while.

The point: redesign your company based on a realistic of your worst case. Protect your core most profitable business, the parts that make up most of your volume and serve most of your customers. Identify your top customers and make certain you are satisfying their needs, protect the core of your business. You must do your debt workouts or perish, it is that simple there are no options here, reduce your debt in the face of reduced revenues, of course.

Not getting small enough quick enough is a short path to disaster. Do it all in one swipe: redesign, re-implement, and off you go. Do it right, all the way, for the worst case scenario using severe, bone-chilling cuts.

#### Mistake 2: Implementing across-the-board cuts

Avoid across the board cuts or reductions or shutting down entire divisions unnecessarily. Pinpoint the best way to downsize while maintaining your full capability. Cut your employee force in half, yet be able to perform the same functions. Letting go of the entire marketing dept is not the way to downsize properly. Isolate and pinpoint reductions so your entire business can still perform.

#### Mistake 3: Communicating too infrequently

It is very important that you communicate with your employees early, often, and honestly; it's the right thing to do and will create great loyalty and support if done correctly. You must acknowledge the need to downsize in order to survive. You need to explain that the reasons are beyond anyone's control. Thus, there is no finger pointing, only team building, working together, digging in and winning the war...for everyone's best interest. Survival of the few at the expense of the many, but survival is critical or all will be lost for everyone.

Tell them you have the plan that will save the day and support your emergence. Demonstrate that you believe in your plan. If you are convincing, they will follow your lead, as that is how they will judge the situation, by your conviction and commitment to your plan and they will all support you. Victory will be possible. This is a key communication.

You must communicate your understanding and appreciation for the pain this is putting your people through and thank them for their support and sacrifice. The potential cost to everyone involved is huge. There may be no other jobs available for a long time.

#### Mistake 4: Failure to handle layoffs with caring

Go out of your way to demonstrate that you care about the employees being laid off. Create the best possible exit program you can, but most importantly, demonstrate that you really care. This will make this entire process much less painful and easier for all concerned to endure. Also, the remaining employees are watching and assessing how you are handling this matter, and if you do it with great care and concern for the employees, they know you will be kind to them as well.

These actions help teams come together. Employees will move into their discomfort zone and perform better than they think they can.

#### Mistake 5: Hoarding inventory

Do not hoard inventory, liquidate. It's a very expensive security blanket. Get rid of it and take the loss; access your locked up capital. The cash is more valuable. Business owners feel more secure with inventory, so they invest much too much money in it, then hate to part with it. In a downsizing, get rid of it!

#### Mistake 6: Failing to demonstrate how cost-cutting hurts you more

If you ask for reductions in pay or benefits, somehow demonstrate how you, too, are sacrificing, and more than you are asking them to do. Do something dramatic and showy that demonstrates this sacrifice. Sell the Mercedes.

Cut deep, deeper than you believe you should. Batten down the hatches and market like crazy. There will be a smaller pie to divide up but you can get a larger share than you had even while downsizing.

## Renegotiate Anything and Everything

In this recession, revenues are plummeting yet costs are high, based on yesterday's economy when it was boom time. Clearly much focus for the individual business owner is aimed at internal adjustments lowering overhead, reducing payroll, and cutting expenditures for marketing and other line items. This is appropriate and expected. However, to do the job thoroughly and effectively, we must look at every expense item not just the ones that are easy to control. For example:

- Payroll: it's always a major expense line item.
- Cost of goods: typically viewed as untouchable; negotiate hard with your vendors or replace them, someone wants the business.
- Leases: of equipment, cars, for your place of business and so on are presumably fixed, controlled by contract. Negotiate new deals.
- Service contracts: for any service provided. Negotiate new deals.

Everything you spend money on is now negotiable. The reason is obvious, everyone wants to keep the business flowing. Everyone is tied to the down economy one way or another and is now willing to renegotiate to preserve business, something is better than nothing is the prevailing logic. Since the downturn affects us all, losing customers steadily, experiencing reduced revenue, it is now the "economy's fault," not your own problem.

This opens the door for renegotiating everything. Not negotiating means you do not understand the nature of the changes we are experiencing. The changes are not temporary, they are permanent. The economy we now have is what we will be experiencing for many years to come. At this writing, we have not yet hit bottom, so we have more decline head of us, more reduced revenues, more lost business.

The Christmas fourth quarter, so important to many businesses, was not good, or better stated, was based on a new and different economy that is far less powerful than what we were used to over the last ten years. It's a permanent reduction of sales, revenue, and profitability, so your cost structure must be adjusted accordingly.

Call your landlord and negotiate a lease reduction or leave, yes

you are breaking a contract but this is a necessary cost of long-term survival.

Reduce payroll and add incentives for achieving greater productivity, eliminate overtime, and increase productivity.

Renegotiate your leases or return the equipment and either release or purchase.

There are many ways to accomplish these goals. Make no assumptions. It's a new world and a new economy. Everything is negotiable; any contract can be broken safely, successfully, and cost efficiently. It's a matter of strategy.

It's not just about cutting some costs, it's about cutting all your costs, none are immune from this process if you want to survive in this down economy, our new world.

## **Beware, a Poor Economy Leads to Bad Decisions**

It's a problem and you need to be forewarned.

When under stress, drowning under feelings of desperation, people tend to make less carefully considered decisions. They also tend to make more emotional decisions, sometimes geared more at deflecting pain and supporting an out of control ego, rather than making the right decisions, doing the right thing, and solving your problems, as difficult as it may seem. Self-destruction is an all too frequent natural response to stress, uncertainty, pain, disappointment, and outright fear.

I cannot blame the small business person for making bad decisions in his moment of extreme disarray. For unexplainable reasons beyond his control, the economy around him is melting down turning his previously successful business and life totally upside down. Unemployment is rising, revenue is dropping, overhead is increasing, our real estate and retirement plans are worth far less, and worse yet the business, which is holding up your world, is failing. What can you do?

So, let's focus on some of the common bad decisions owners makes under such circumstances. Stop, think, and proceed carefully, you are in a dangerous, hostile situation and are in jeopardy of making mistakes far more dangerous than what an economic meltdown can cause and the potential or actual failure of your business.

What am I talking about? Drugs, alcohol, and infidelity are the deadly three. Add gambling and you have the complete picture.

Normally high standard, family loving, community leaders, dedicated small business owners can fall from grace under the pressure of unpredicted financial disaster. In the depression, people who could not face their business failures jumped out of windows. Today, they get addicted to prescription drugs, alcohol, and commit adultery.

Whether it is to dull the pain, feel the rush of false exhilaration, or stroke the ego, it is a response to unbearable pressure and intense pain, self-doubt, and a need to feel positive about one-self. Being under such pressure can lead to very poor decisions and disastrous mistakes. Mistakes that will do more damage than financial destruction, that will destroy the fiber of the family and put everyone close to you at risk of utter destruction, irreparable destruction.

Think twice. Recognize you are under stress and accept the fact that your decision making capability may be impaired. Gather your strength and dig deep, remember your standards, and hold on. Yes, it requires great strength and self-sacrifice, but we are all capable of making good decisions, we have demonstrated that skill repeatedly. Do not fail under duress, when the risks are huge. Business owners are warriors, committed to standards and self-sacrifice. Do what is right.

Accept your responsibility with a “no problem” attitude, ask for help if you need it, and find the way out. Do not sell out your family for a false placebo. Accept your responsibility. You are a warrior and will be tested as never before. You must not allow business conditions to be excuses for bad behavior.

No drugs, no alcohol, and no adultery. Pay attention to what is important.

## **Reinvent Your Business or Perish**

I see, hear, and talk with small business owners every day, and they are frequently viewing their current situation as if they have a choice. There is no choice. There are no options. We are confronting a changing business environment, and we all must make changes to survive. Holding the course, doing the same things we have always done is not an option. Until and unless we all surrender to this clear mission, we are flirting with self-destruction. The new economy will allow no slackers, no doubters, no laggards.

So, what does this mean?

Reinvent your business, what it does, how it does it, and what

its sales revenue and profit can and will be by:

- Downsizing immediately.
- Tightening the operation.

There will be decreased revenues. Thus overhead, payroll, expenses, and cost of goods, all must be carefully controlled to maximize the profits that are available out of reduced revenues. Your business must be run as tightly as possible to survive these changes, anything short of this two-step strategy is destined to fail; it is just a matter of time. There is no such thing as a partial attempt here; it is all or nothing.

## Recognize the Need to Change

The real first step is to acknowledge the intensity and danger of the situation. Then take full and complete action. You must surrender to the realities that a poor economy requires changes, that you have no option, then implement the changes.

The irony is that we all know what we should be doing, and we all know we ignore making these adjustments to tighten the operation for reasons that are mere excuses. We listen to our own excuses, “Tomorrow,” we will make adjustments, or “I am too busy today,” or whatever your excuse may be. Surrendering to the issue is to accept that there are no choices. Thus, all that remains is doing the job.

## Workout Debt

Debt is the killer. Thus, there is no choice other than to work out the debt, reducing it so survival can continue. Debt cannot be ignored or absorbed in the context of smaller revenue. Debt taken when projections of revenue were significantly larger cannot be serviced when revenues are decreasing rapidly. Something must change. Either reduce the debt or the business will fail. Surrender and do something about it...a debt workout or fail.

## Continue Marketing to Gain Market Share

Marketing is usually the first line item to go and the next mistake. Marketing strategies must change, that is a certainty, but effective marketing is critical to survival and must be successfully implemented in a downturned economy. This is an opportunity to

absorb a larger share of the declining market if marketing is appropriately implemented under the changing terms of the new conditions but not marketing is fatal.

Recognize the changes occurring. Recognize you have no choice. Surrender to the requirements of an economic downturn to make the changes necessary for survival...and implement immediately.

Use the internet, it is cost efficient and the way of the future. Get help if you need it, but this must be done.

## **A Powerful Downturn Growth Strategy (more reinvention strategies)**

Taking the general approach in today's business world, while historically successful, does not work well in this very competitive downturn marketplace. With decreasing sales revenue and increased competition fighting for the consumers' dollars, it is time to create a specialty, an expertise, that will outdraw your competition, and then sell them all the other common products or services everyone else offers as well.

The marketplace responds to the business that has the widest and broadest selection, believing that this must mean they are the experts. Offer the most, and you become the best. Your business is the place to go. Identify a popular section of the market demand, and then, expand inventory to offer the most of it.

A shoe store that specializes in sneakers, running shoes, wide sizes, large sizes, and so on, carves out a niche by having the largest selection and attracts not only an expanded sneaker business but whatever else the consumer requires when coming in to buy sneakers. Having the greatest variation of the theme is another way to specialize that every retail store can accomplish to create a real *expertise* and a competitive advantage. Your specialty does not have to be unique merely expanding your breath of the inventory to be the *largest* in the area will do the trick. Pick the product concept and then exploit it by providing every possible entry, including all the less popular items that do not sell very much. It supports your expertise and attracts the audience.

Whatever product you are selling or manufacturing, whatever service you are offering, figure out where you can take a stand. Create a competitive advantage by developing a unique expertise, specialty, an even a wider inventory of a general product or service line, anything that gives you an advantage over your competition.

Attracting a larger audience than you would with the normal distribution of product or services is a very important way to hold onto your market share while competing in a down market.

Any business can find some unique opportunity to specialize. For example, have the largest selection of wines or micro beers, or foreign imports, but whatever you choose, have the most, be the best and reap the benefits. This is how to grow and prosper in a declining market. Find your specialty, create one, invent one, or claim one. Saying it makes it true and brings the customers in. Doing it delivers the results and supports success.

Create your own competitive advantage, then promote it widely, and the general business will follow. The unique business specialty will support growth and development and will help retain loyal customers as well as increase the geographical market you will serve because of the willingness of consumers to go further to find your specialized business.

More is better, more attracts the audience. Even though they will purchase the most popular, the market likes to have choices and this becomes a competitive advantage worthy of exploitation, especially in a down turned market environment.

## **Dozens of Restaurants Close; One Has Waiting Lines**

Even in a down market, a few business owners understand what it takes to capture a larger share of a declining market than their competitors. This restaurant story is a perfect example.

It's clear that a market downturn severely limits discretionary spending. Many people are out of work, have lost jobs, are victims of downsizing, or are simply in fear of losing their job, the stock market is down severely, and real estate is worth less than it was. In response many are spending much less money on the luxuries, as everyone is tightening their belts.

Some industries are harder hit than others in a business recession. Restaurants are one of the hardest hit industries. On a visit to Florida, one of the hardest hit states in the country, it is obvious how many restaurants have gone out of business or are teetering on disaster because every day there are fewer and fewer patrons. The good restaurants are working at a reduced capacity, and the average to poor ones are fighting for survival or going out of business.

Yet, one particular local restaurant in the area has the locals standing in line for over an hour to get a seat...every day of the week. How can it be, 20 local restaurants closing their doors in the immediate market area and one with long lines waiting to get in? What is this business doing that is right, that others are not, in the face of this crushing recession?

The answer is predictable. It is because the restaurant serves a higher quality product than others in the area and at a reasonable price, not inexpensive, but reasonable. General, all-purpose American fair, priced above average but within reason.

Quality sells well, all the time. That is the message. High quality at reasonable prices will always win out and bring the people in as well as back again and again. It's the repeat business that makes them a winner, as people know that they will get a high quality product each and every time. It's word of mouth that spreads the success to others, and the lines never end.

There is a breakfast joint in Cape Cod, Massachusetts that is also like this. People flock for miles every day of the week and spend more there than in most other breakfast spots. Because the product they serve is innovative, and most enticing, as well as the highest quality. Even at an above average price point, the repeat business is consistent and the new business grows from word of mouth advertising. They, too, have people standing in line to get in while other breakfast spot parking areas are empty.

Every day of the week, some win some lose, even in a down economy competition continues, perhaps even more fiercely. Quality always wins out in the end in every kind of business, even during a recession.

## **The Virtual Business Strategy**

Subcontracting, strategic alliances, Internet sales, Web sites, blogs, podcasts, YouTube, email, voicemail, technology, and partnerships make the virtual business model a serious consideration for any entrepreneur establishing a new business or reconsidering the operational equation for an existing business.

Maybe a new format is the answer...the virtual business.

What does this mean?

It's simple, whatever you are making or whatever service you are providing, chances are very good some other business organization is already performing this service and doing it very well

and very efficiently, and would love some additional business...a strategic alliance that makes sense for all involved.

Consider no more employees in production, expensive warehouses, and other overhead burdens. In essence, you become a sales organization supported by Internet, Web site sales and marketing efforts, all low cost and working 24/7.

Your territory becomes the world.

You can even off-load sales to other organizations, call centers, brokers, representatives, telemarketers, and so on, all willing to work on sales success and share the proceeds. It's possible that you are the only person involved in your own organization with everyone else a strategic partner. Sounds a little utopian, but it's possible, and to various degrees.

Just ridding yourself of manufacturing would result in an immense savings in overhead and time burden. Why not manufacture offshore in India or China? There are brokers and reps willing to assist you in making these connections. A fulfillment arrangement will allow drop shipping directly to your end user.

One requirement, since you will know all your costs, you simply mark up your product adequately to absorb the various costs and then add your profit.

You either have to buy low and sell high, or buy high and sell higher.

Both are possible, not for every product or service but for many. It used to be a strategy reserved for large manufacturers purchasing shipping container loads who experienced huge economies based on the extremely low costs of labor and materials in other countries.

Now the small business owner can piggyback on this opportunity because there are brokers handling the transactions and providing enormous savings for them as well. Now the small business can compete effectively. Because few small businesses are embracing this opportunity, those that do, experience huge competitive advantages.

Telemarketing can be off loaded to companies in India willing to charge in direct proportion to revenue earned. How can you lose? Printing can be handled this way, as well as many other aspects of your business. Think about the possibilities. Consider becoming a virtual company by creating a business plan that relies on outside sources handling the entire chain of business or at least significant parts of it.

Your immediate response will probably be, this is an interesting idea but it will not work for me or my product. Think again; there is little that cannot be accomplished through strategic alliances offshore or onshore creating a true virtual business without any bricks or mortar.

This also does not have to be an all or nothing decision. You can go virtual on parts of your business and not all of it.

# Look at Your Options

## Escape When You Can't Recover

It is clear as of this writing that we are not in a recession. Let us get that clear. A recession implies that it is temporary, will soon be over, and we will return to where we were. Dream on. It ain't happening.

What is happening is a huge change in our economy. Many changes that are occurring will have a long-term impact. We may lose our auto industry, or better said it will exist but it will look quite a bit different than it does today. Same with the financial, housing, and building industries, and on it goes. This will be a five- to ten-year cycle, maybe even longer, not ending with where we were, but evolving into a different reality. Understand that the same jobs will not be available on the rebound, and many older experienced workers will not regain their previous or even comparable positions...ever. The ongoing prognosis or business survival is very serious with millions of businesses likely to fold in the next few years, with significant downsizing in many, many others that survive. In fact 1.5 million businesses closed in 2009, more will close in 2010, many will file for bankruptcy, many will simply shut the doors and be done.

Another aspect of this extreme change, is entire industries will be altered beyond recognition. The office furniture market, including new and used furniture, is in deep trouble. New office openings are rare at the moment, and closings are too numerous to mention. Clearly, there will be warehouses filled with office equipment and furniture, and it will take a decade to absorb this inventory.

The general furniture industry is experiencing severe pain as well, as the purchase of new furniture is frequently associated with acquiring a new home and that practice has come to a standstill eliminating this bedrock demand for new furniture. Layoffs as well as cuts in bonuses and pay additionally drive the demand for this

discretionary purchase to be postponed for a while, a long while, maybe indefinitely.

Car dealers are hemorrhaging, as no one wants to buy cars. People who do cannot get credit. Many are losing their jobs or fear they may, so they will make do with their current auto for another year or so.

On it goes, some industries simply slow down like the restaurant industry, others dry up completely. It's one thing to adapt to a slowdown, it's another to try and adapt to a drought. Endure the slowdown and redesign your business equation. Get out of a drought, alive? Doubtful for many industries, possible for others.

If you are in a drought industry, you must plan your departure with broad based exit workouts, preventing further harm to come to you personally. It is crucial to exit safely, or re-emergence becomes extremely difficult. Plan your exit, especially the cash requirements and make certain you can bridge the gap.

We are living through a huge transition. Those that recognize it will make the correct decisions: be it adapt, cut and run, or self-liquidate. Think clearly, then plan and implement effectively.

## **You're Unemployable, Make Your Business Work**

An entrepreneur, typically the small business owner, is unemployable in the traditional workplace. Therefore, you had best make your business work: pay its bills, pay you, and retain some earnings.

I can explain this reality.

You are all unemployable, not because you are unskilled, you are in fact very skilled, but because it is unlikely you will find a satisfactory job opportunity based on your financial requirements, your experience, skills, and expertise. Considering the various risk factors any prospective employer would have to weigh: few would pay what you need, trust that you will be loyal and in for the long term. Add to that the questions of whether you will take orders and not disrupt their organization. The net result is, you are unemployable.

They are probably correct in harboring these doubts, as an entrepreneur cannot work for someone else for long. An entrepreneur is a different type of person and does not have the personality required to be a successful regular employee. You are a dreamer, a planner, and a strategist. You lead and do not follow. This is not a good employee profile.

Unfortunately, millions of small businesses will fail over the next few years. Those businesses that survive will do so because the owner makes the necessary changes required to successfully navigate this economic meltdown. All others will fail. You need to succeed if you want to continue your independence.

It's your choice: make the changes necessary, including:

- Pre-emptive debt workouts.
- Downsizing, deeply, then rebuild slowly.
- Adjusting your marketing, sales, and production programs, utilize the internet.
- Reducing your inventory.
- Collecting your receivables more effectively.
- Implementing greater employee productivity through an incentive-based reward system.
- Developing a flat management organization.
- Installing and reviewing a key indicator system and financial statements weekly.
- Training and cross-training within.
- Creating career paths.
- Reinvent your business model to reflect what works and what does not.
- And using many other systems that allow a manager to make the best decisions possible to maintain profitability at all times.

Implement all of this, and most important, implement a preemptive debt workout while you still have something left to save. You must reduce your debt to survive in these new economic conditions.

If you do all this before you have drained all your resources, are under siege by the bank, and are reacting to disaster as opposed to leading through change and adjustment, you will survive and possibly prosper, even in a meltdown. You will not need to attempt to “get a job.” You had best make this business work well, very well. You are unemployable. Trust me, I know.

Even if you are under siege and confronting total loss, there

may still be time to preserve the core business, shake off all the debt, and re-organize...or make a safe transition to another business model.

## What You Can Do If Your Business Fails

OK, the economic meltdown is forcing you out of business. We all know many small businesses will not survive a severe downturn. Many failed business owners will be out of work looking for a new way to earn an income. The old ways are, for many, all but gone and will not be returning.

But you all still have skills, valuable skills, contacts, knowledge, experience, and perspective that you can convert to a business opportunity. You can leverage your years of entrepreneurial experience into a new way of earning off your skills and knowledge.

I will describe some scenarios:

1. Be a broker for the product line you were involved with. Certainly you know the players and based on your experience and knowledge and established relationships with major customers you would be a great broker and possibly very successful. There are low barriers to entry and it will not require a lot of startup capital. It is a great fit.
2. Be a sales manager for a competitor who survived, with a commitment to bring in certain favorite special accounts you have excellent relationships with, sell your relationships. It's time for you to cash in, and it could be very lucrative working for your major competitor.
3. Reduce your product line down to one or two items, the best sellers, remove all excess employees, sub-contract as much as possible and run a small but lucrative specialty shop. Use the Internet for sales and market like crazy making a living off a few items with low overhead, a few people and yourself. Expand your territory to be the world, as that's what the Internet will bring you. Reinvent yourself and your business model.
4. Write a book, a manual, a how-to-do, and become a consultant for the industry. Market yourself through the industry trade organization and convert your knowledge to a marketable commodity for start ups. Offer specific problem solving others would turn to you for help with.

Be a consultant you have done it all.

5. Get a job with your industry trade organization. Start by writing an article for the magazine and offering to speak at the annual convention or tradeshow. Work your way into the organization or perhaps an industry business will be attracted to you as you increase your contact because of your new visibility.

## Why You Need Advisors

Every business owner needs a board of directors. First, we do much better when encouraged by others to leap further, stretch more, achieve more, be more creative, do better, and so on. We see this in so many places: home team advantage with the crowds screaming encouragement, moms and dads at Little League Baseball games. We all can accomplish more with support than we can by ourselves, yet most small business owners do it all themselves with no one to cheer them on, support their efforts, or push them harder.

Coaches know, and everyone has, at one time or another, experienced the effects of encouragement, yet where it counts the most, in our business life, we all seem to prefer to do it ourselves, fighting our battles alone, winning or losing with our own drive and effort. It makes little sense for so many reasons, yet we seem to prefer to be lonely at the top and stay there isolated doing the job the best way we can.

With a board of directors, a coach, a mentor, or a consultant, you not only have a cheering section, a driving force greater than yourself but also checks and balances as well as an unemotional point of view. It's very important to have someone to try your ideas out on, to make certain your thinking is clear, to test your theories, and to have someone challenge your logic.

There is always some aspect you won't foresee or consider that someone else may think important and challenge you on. This prevents mistakes, oversights, miscalculations. It provides performance, success, mistake insurance. A board supports success, helps you reach your goals, to achieve greater success than you can on your own. Not only is this very important for your overall success, in addition you will consider new ideas you otherwise may not have had.

I highly recommend you ask someone to be on your board who is willing to be brutally honest, totally candid, willing to challenge

your thinking and your performance, wanting to make you better, unwilling to compromise.

You may consider paying someone to be an outside director, paying a consultant to watch over you, or using your lawyer or accountant to review your work, but an active, concerned, aware board of directors is the best way to achieve this goal. You should meet periodically but often, certainly no less than quarterly, or perhaps monthly and possibly weekly. You should review all aspects of your business including finance, operations, sales and marketing, providing a complete review of all financial reports and key indicators.

The best situation, however, is having a board of directors of interested participants, be they investors, lenders, friends, or family. There should be an odd number on the board, and majority should prevail unless you decide that unanimity rules. They cannot be a rubber stamp for the owner.

Even if the owner is the majority or even the 100 percent owner, he must allow the board to determine his actions providing checks and balances at the highest level.

The big corporations do this, why not learn from the best and follow suit. It makes sense, it works, we all need the help, support, and guidance such a system provides. Your business is important enough. Get help get support, create a board of directors and empower them, listen to them.

## **Have Your Business Inspected**

What is that old saying, “You can see a flea on another’s nose, but not an elephant on your own.”

We all believe our own stories. We all see ourselves through our own filters. We may be able to advise others on what to do and how to do it, but when it comes to evaluating what we do individually, we all typically flunk the test, as we believe our own effort is the best, and we cannot see the elephant on our noses.

If we had a board of directors, to watch and check our actions and programs, systems and operations, and if we produced daily, weekly, monthly, quarterly, and annual financial reports, along with tracking key indicators, and if we had a flat organization, we might be able to say with confidence. “I am doing it right!”

But most of us are doing it alone, and do not have a board of directors and the appropriate reporting mechanisms and systems installed and operational to help us guide our businesses effectively

and successfully. If there are no checks and balances and no flow of critical information how can we tell if we are operating profitably, effectively, and successfully. We cannot. Admit it. Unless we believe our own evaluation and analysis, which is usually a mistake, because we also all usually believe our own stories and our own stories are fraught with our own biases.

So, what are we to do?

Simple, we all probably have a certified public accountant, a CPA, trained in business systems and financial reporting. Maybe it's the CPA who does your annual taxes, maybe not. However, there are competent CPAs in every market. They are all trained and have the experience and expertise to evaluate your business systems to determine if you are operating truly effectively, efficiently, and profitably.

Take the test! Hire your CPA or hire one you may not know yet. This exercise will in all likelihood cost you less a few than a thousand dollars and may be the best money you have spent in a long time.

Ask him to come into your business and inspect your systems, reporting mechanisms, and procedures and then make recommendations. Let him loose, let him review, talk to your managers, and evaluate your business operation. Have him evaluate what you have operating: what is working, what is not, and what you need.

You will be amazed at what his report will tell you, and the recommendations he makes. Without judgment follow his recommendations. Do not re-evaluate him, do not argue with his findings, do not say glibly, "I do not need these systems and recommendations, I know what's going on without these reports." Do what he says, because he is trained to make these recommendations. Listen to him and follow his advice and maybe you, too, will have a profitable and successful business operation.

Inspect yourself through the eyes of an expert.

Do this quarterly and you will be assured that you are on the right path. Do not do this and you will probably wonder off the trail. Arrange for your business to be inspected, evaluated, and then follow the recommendations.

## Follow Your Gut

As important as outside opinions, research, and evaluation are, I read an article many years ago, that has stuck in my mind. It was about a Harvard study on how the best business leaders make decisions. It described how they would collect data, test hypothesis, do research, ask others' opinions, and do the numbers, but in the end, universally, after doing their best research and evaluation, they all said then they would lean back in their chair and trust their gut instinct.

Wow, I thought, in the end the best decision-makers of the time, the leaders of successful corporations trusted their gut instinct to make the most important decisions.

I was both amazed and very excited as I have had a life time of making intuitive, gut decisions. I get that feeling in me when I know I am onto something good. It is difficult to explain, my wife calls it the ping of truth. It is a sensation, an energy, a feeling. When it happens I know it. When it is not happening, I feel its absence.

At one time, I had been eyeing with great interest a building that had been for sale for a while. I called the broker who informed me it was under contract. I asked him to call me if the deal fell apart. It did, and he called me back. The deal was exceptional, the property appeared right for my intended use. I should have been very excited, but I wasn't. I did not have that gut feeling of excitement, my "onward through the fog I go" feeling, no yeah! No feeling of exhilaration, no sense of destiny, no ping of truth, no inner belief it was the right decision despite every logical analysis screaming, "Buy, buy, buy!"

So, I stepped away and did not act on the opportunity. Will I be remorseful when someone else buys it? No! Do I have any reason not to buy it? No, not one! I simply do not have that gut feeling telling me to do it, so I will not.

I am following my intuition, my gut feeling, rather than deciding by empirical evidence, numbers, and any other analyses available to use. All other evaluations scream buy it, except the absence of the one I deem most important my intuitive, unexplainable feeling of yes.

I believe this is the soul of entrepreneurial decision making, instinct, gut, intuition. I believe the Harvard study had it right. The executive leaders used empirical evidence to evaluate and analyze and then rested on their intuitive feelings to make the final decision.

If empirical evidence says no, there may not be a reason to go further, if the empirical evidence says yes, then check the gut and decide based on intuition. If you're good at this skill, irrespective of empirical evidence, research or numbers, do whatever your gut says despite what the more traditional evaluation process says.

If this is foreign ground, you can learn to do this. Start with small decisions and try and feel the right decision, Experience success. Get familiar with the feeling so you can identify when it happens again. Continue to experiment with it, and see the results. It may be a skill you have but have ignored because you did not understand its power. Trust your gut...it knows.

## From Innovator to Manager

Many small businesses start growing and managers with little or no training apply what they learn from having been managed. Those who've never been managed, follow their gut doing what they think is needed to get the job done. For the entrepreneur, who has only worked for himself and grown his business hands on, changing styles can be a difficult transition that many never make. Some have a natural skill at leadership; others fall into the trap of over managing or micromanaging. How an owner and those who work for him manage also has a lot to do with the organization's management structure. Here are the strategies I have found that create the most successful environment for a thriving, growing, and successful business.

### Management by Leading or Doing

There are two styles of managers. The first is the doer. He does it all, controls it all, and everyone under the manager are his assistants. The manager makes all the key decisions and the workers simply implement if they can. No one can make a decision without the manager, and the manager steps in to complete tasks and correct and adjust the process when needed and even if not needed. Here are some other characteristics of managers who are ineffective:

- Deflect criticism for failure to perform adequately by blaming his staff.
- Undermine the authority of his workers or staff by countermanding decisions, compromising their ability to lead, and the loyalty of their people and the teams they trying to create.
- Ego driven and must be in the spotlight at all times taking credit for success.

This style of management does not inspire long-term relationships, employee career paths, or peer development.

The second is the manager who leads, not by doing the job but by teaching, directing, training, and yes, leading his people to do the job. He is there to assist if and when necessary, but not to do. Very few are leaders rather than doers, but it's the right way to go. Here are some of the characteristics of managers who lead:

- Accept responsibility for screw-ups and failures.
- Gain full cooperation and commitment from the people they are responsible for by allocating responsibility to them and trusting them.
- Pass off the limelight for success to the individuals and teams who performed the tasks well.
- Lead by example, by showing, teaching, and training the people how to be better.
- Encourage employees to make decisions and take risks, then support them when they make mistakes or fail, knowing their support encourages growth, builds confidence as well as trust between the manager and the workforce.
- Inspect frequently to be assured of success, but allocate responsibility and authority completely.

A true leader is invisible. These are the leaders that the employees will walk the extra mile for, will stay late and come in early, will produce better product with fewer rejects, will become team players working together for a common goal because there is reason to succeed.

Give to your employees, and they will return your leadership many fold. Manage by doing and you sacrifice being a leader and become a babysitter. A leader develops the employees to become their own decision-makers and risk-takers. With making decisions and taking risk, they will succeed frequently, which is good. They will also fail occasionally and that, too, is acceptable because without allowing them to be decision-makers and risk-takers, all you can do is babysit.

In short, try managing without doing, pretend you cannot do but can only lead, teach, train, and support. See what happens, aside from your employees being shocked at first and then much happier and more productive and more successful, they will build a better

team and you will have to manage less and less as they get stronger and better.

## Is Your Organization Flat or Pyramid?

There are many styles of management, and depending on the size of your business and the organizational format and whether or not you have departments and department managers, all may help determine how you manage your business. However, the real issue is the personal preference of the owner as to how he wants to run the company.

### Style Differences

There are two basic formats, the pyramid organization with the head of the company, typically the owner, making all the decisions and the managers simply implementing his mandates.

Alternatively, there is the flat organization where the managers make the operational decisions with the management team and owner only reviewing results or discussing issues and problems. Managers resolve daily operation issues with reviews on a timely basis such as in a weekly managers meeting. Of course, the owner can always determine to review critical issues as required, but the company is run by the managers in this flat format.

There is a huge difference in these styles. The pyramid organization concentrates all power and decision making typically in the owner's hands. He micromanages every aspect of the business with a constant flow of managers asking him for immediate short-term consideration and responsiveness to whatever is happening at the moment. There are typically few systems installed, as the owner makes up his mind on an issue-by-issue basis. This is more often called putting out brush fires and babysitting as these are the main functions such a style promotes.

Endless hours, total self absorption.

### Empowering Managers

On the other hand, the flat organization allows, encourages, and even requires the managers to make all the operational decisions without going to the owner or the head for the answers to every micro issue imaginable. A flat organization requires the managers to be held responsible for success and also held accountable for their

achievements or failures.

As you can see the choice of management style must emanate from the ultimate boss, the owner. If he is committed to controlling it all, he is establishing his and the business's limitation, as there are only so many decisions he can make in a day, this style eventually stifles the effectiveness of the organization.

The second system, the flat organization, requires the owner to trust his managers, and rely on key indicators to track, monitor, and control their actions while the owner makes policy decisions. The managers manage the daily operations, attend meetings to share and discuss information.

## Empowering Employees

To develop the style further, if the decision is to manage a flat organization, why not empower the employees to also contribute to management decision making. Thus, involve the entire team in the responsibility and accountability for success. Thus, holding periodic department meetings, managers can frankly and honestly discuss the workings of the operation and how to improve it.

This approach works best when the employees are also rewarded for success on an incentive basis, which puts everyone in the same boat all pulling together trying to achieve the same goals, being held accountable, and rewarded for success.

I believe the flatter the organization is, the more the employees and managers are held responsible for success and accountable for reaching goals as well as being rewarded for achieving stated benchmarks, the more effective, efficient, and profitable the business will be.

It must, however, start from the top. If the owner selects a strong management team and then lets them manage, if the managers can create quality teamwork in each department, and then if the departments can work together to create a larger team effort, success will be most assured.

The owner's job changes from crisis and brush fire management to training, planning, and reviewing—what it should be. This is the way many successful companies are being run today. While neither style is wrong, it appears that flat organizations are the current trend. Major business successes such as Toyota and Whole Foods are truly flat organizations, and these businesses are growing rapidly with control and profitability. Perhaps they should be emulated.

## Why Flat Is Best

Let's dig deeper and see why a flat organization appears to be more effective, and therefore, preferable.

A flat organization has managers making direct operational decisions with limited overview other than being held accountable and responsible for successful performance. Wow, it already sounds good. Can you imagine holding your managers accountable and responsible for the performance of their section, group, or division?

This requires a significant discussion with your managers to agree upon the goals and objectives, but the managers are responsible for achieving them. Each division or group acts as if its manager is the CEO of that group. His answer is the final word, and he does not have to retreat back to the mother ship for ratification, affirmation, or permission. The manager is empowered to truly manage for success.

It further requires a CEO who will expect, anticipate, and support managers making errors in judgment. This is critical, since every decision will not be correct or the best, but as long as enough of the decisions are appropriate, then the CEO should cultivate decision making by supporting errors made in the effort. The best professional baseball players hit one out of three or four at bats and that's success. Basketball players, likewise, shooting over 50 percent, are all-stars, and no one beats them for missing a shot. They are encouraged to swing and shoot again and again because in the end that's how they win.

Managers should be encouraged to occasionally take risks, a leap of faith, a daring experiment, and maybe they will hit a home run, bringing additional profits into the company. Low-percentage shots are missed more often, but players are encouraged to take them because great players make enough of them to justify the risk of missing. Your managers should be encouraged to experiment. They should be supported in their efforts and encouraged to do it again if they fail, even if they fail more often than they succeed, as long as they reach their objectives and projections. It's all good as it's a flat organization and you're betting on your managers to deliver their objectives and projections.

Ask your managers to draft their own department business plan and supporting budget, and then give them the authority to implement it. You have the basis of a very successful flat organization, with far less management and babysitting for you. Your managers

are now the CEO in their group or division responsible for success, and they will work as hard as they can to deliver as it's all on their shoulders, their plan, their budget, their operation.

How about rewarding them and their workers with incentives for successful implementation of their plan? Let's really get them involved, committed, and invested in your success.

By the way, you and your managers will waste a lot less time in meetings together than if you were in a pyramid organization, where the CEO micromanages every decision and affirms all managers' activities. That's not necessary anymore. Give them the ball and let them run with it. Let them create the plays. Of course, be involved in an orderly fashion with scheduled weekly meetings to discuss actions and projections and review performance, but let them control their game plan and implement it directly with as little interference as possible. No assistant managers and assistant to the assistants required. That's flat.

Belichick, manager of the New England Patriots, sets the tone and direction and goals with a game plan, but his offensive and defensive coordinators determine the plays and formations during the game. That's flat. Belichick does not make every decision, nor does he even review them during the game. His men are free to manage and do their job... and win.

This act turns the manager's job from a boss's messenger boy and babysitter to a very productive manager. He is no longer just transferring the boss's wishes and managing for limited success preferring to not make errors rather than to score since it's not his game. His job focus changes from damage control to victory, and that is what we truly want.

Why not even leave hiring decisions to your managers? It's their team; allow them to pick their own players.

This begs the question, what does the CEO do if he is no longer responsible for the operation and is running a flat organization with his managers controlling and operating the game?

Plan, train, and review, that is the CEO's real job.

- **Plan.** Chart the future course and goals, plan for capital investments, growth and development.
- **Train.** Make certain your managers are constantly learning new skills and acquiring additional capabilities, provide training opportunities and make them mandatory.
- **Review.** Always monitor the results and the key

indicators so you have a pulse on your progress and success. If faltering, you're there as soon as possible to help make corrections to the plan. You're supporting your manager's efforts not doing their job for them. Inspect your manager, often and deeply.

It is important to free your managers to act independently and not merely reflect your wishes, style, or approach, and it is as important for the CEO to encourage and support contrary styles and approaches to problem-solving as you flatten your organization and empower your managers.

This style of management design can eliminate levels or specific jobs of middle management, managers who report upwards and downwards but do little productive work and less managing.

That's a flat organization. Can anyone do it? Jack Welch the most successful CEO in modern history spent his career flattening General Electric, one of the most successful organizations ever. He spent years converting a huge pyramid to a flat organization, division by division, and he claims flat is the only way to go.

It requires a CEO who can resist being a control freak and let go in exchange for the benefits of greater success with far less work effort and greater success. Let your managers do their job. Why pay them a lot to watch over the employees when they should really be managing them.

Flatten your organization, stop allowing your ego to control your business, let your managers do their job. They will.

## **Management Lessons from President Obama**

Many are criticizing Obama for doing too much, starting too many programs, taking biting off more than he can chew, so to speak. Not so I say. While I am not endorsing his programs I take note of his ability to manage a diverse, complicated, and numerous list of agenda items. He is the perfect example of implementing an effective flat management approach, and we see its benefits. He is accomplishing much in a very short time, whether or not we agree with his programs is another issue altogether.

He states the goals he wishes to achieve, empowers his cabinet members to do what it takes to reach his objectives, and also figure out the strategy, how to get there, and then implement effectively. Of course, Obama inspects their process, reviews their findings and affirms their strategies, and checks on achievement.

He further accepts final responsibility for the results, whether they are good or bad, and pays respect to the managers whose efforts the program represents by giving them credit.

The man is an excellent flat manager and is demonstrating how much more can be done when he removes himself from making every possible decision and trusts his managers to do their job. That is why he has cabinet level appointees handling major areas of his agenda and authorizes them to create programs that will reach his goals. That is flat management. Without it he would accomplish far less, buried by the enormity of the tasks.

Take a page out of his book, manage a flat organization, get far more done, take responsibility for the failures and applaud the managers giving them credit for the successes they achieved. Inspect, review, and project but let your managers carry the heavy weight. That's flat management. If Obama can do it, you can too.

## **Inspecting Your Managers for a Flat Organization**

The challenge in managing a flat organization is for both the owner and the manager to learn how to communicate, transfer the pertinent information effectively and honestly without fear or risk, ego involvement, and other interfering emotional junk. Here are the two basic communication requirements:

1. The manager must understand that the owner requires information in order to effectively manage the growth and direction of the company as well as to generally understand what's happening.
2. The owner must foster an environment that supports the managers in taking reasonable calculated risk when making decisions and not being penalized for failure or mistakes, but being encouraged to try again. This opens up the full throttle for self-direction, self-responsibility, and growth, while removing daily operational responsibility from the owner.

Given these two basic requirements, the owner's need for information and the manager's need for support of reasonable risk, the manager must accept being inspected and transfer all pertinent information, and the owner must learn how to inspect his managers

to gain his insight, but not interrogate. There must be a frank discussion about this reporting process so both the owner and the managers learn and understand the requirement for inspection and the difference between inspection and interrogation.

Inspection is the close examination of what is working and what is not working. This is not intended to be a judgmental evaluation of the manager's performance; it cannot be an attack on character or capability. It is a real-time report to extract vital information so management and ownership decisions can be more effectively made regarding what exactly is occurring and what can be done to further the business goals and objectives.

There are two issues that most often interfere:

1. The owners tend to make it personal and emotional, and
2. The managers feel as though they are being interrogated as opposed to inspected.

Unless done effectively, failure will result in a return to a pyramidal organization with all decisions being made by the owner. The other possibility is losing your managers. The difficult, yet crucial, understanding between the owner and the manager must be that inspection is all about the transfer of vital information. Any opinion from managers to owners must be conducted without emotional baggage and the interference of personal judgmental attitudes.

The managers have become the owner's eyes and ears and are closer to the line of action, and the owner must refrain from making judgments regarding the manager's performance by entrusting the manager to do the job, and therefore, enjoying the owner's full faith and support while manager controls the position. The result will be a quality flat organizational experience enhancing the likely success of the business and the people running it.

Manager inspections are not social events, or personal discussions, but are designed to achieve specific business goals and require communication training in order to achieve the full potential for success that we all envision.

This is an important and necessary system for all business organizations, flat or pyramidal. If your organization is pyramidal, while inspection of your managers is not as mandatory because the owner's involvement is closer to the scene of action, the ability to regularly inspect is always extremely helpful, and you should train

your managers to be inspected.

If owners and managers can learn how to perform this function, both will be happier and far more successful as it will help the underlying business entity also reach its greatest potential.

## Flat Management Practices

The idea behind using flat management practices is to create a team approach to management and as flat a hierarchy as possible. If you have department heads, say sales, marketing, operations, and finance, while you have written and determined the overall plan, each manager should be deeply involved in his own division planning. Since he knows intimately what works and what does not work. What a huge opportunity it provides you to ask them for their ideas and plans.

What would they do given the opportunity to chart this year's course?

I would start with a meeting to explore the parameters, being careful not to poison their thinking with your ideas. It is appropriate to establish the guidelines, which should be well known anyway, so everyone works within the same parameters. Let them determine the program, the strategies, and the plans required to produce the desired results, see what creative thinking you inspire.

Better yet have them determine their budget based on their plan. What do they need to get to where they want to go? This is called zero-based budgeting. Rather than starting with last year's budget and adding on a bit here and there, so they can spend more, ask them to determine a budget starting from zero. Require them to create the best possible plan and cost it out so the budget reflects a real plan.

The results will be terrific as certainly you, the owner, will learn and see strategies that you otherwise would have overlooked. The person in your organization dedicated to this one part of your business may see clearer.

Also, consider the effect on the manager, as it becomes more of his plan and he is now willing to defend his thinking and plan and budget. He will have invested himself into the program and will do anything it takes to have it work as he projected. Thus, you end up with your department plans and your overall plan.

In a follow-up meeting with all your department managers, you then play the role of mediator and integrate all the plans into one

coherent integrated overall plan one with their separate budgets. This will work better than doing it all yourself and then asking your managers to implement it. This approach has their input and budgets as well as the benefit of all managers then reviewing each other's work and making it all fit together.

That's a plan that has power and precision. Launch that baby; it's bound to work better than your own plan done without the input of your key managers. As well, consider the enormous job satisfaction, pleasure, and enrichment experienced by your managers when you show them the respect of including them in planning the rollout for the new year. They will stop at nothing to make certain it succeeds, and then watch their self-esteem, confidence, and pride build.

You will have successfully begun to build a real team effort.

# Hiring Right

In order to build a business, you have to hire people. Getting the right people and the right number of people into the right jobs can be a challenge. It takes time and resources to hire people and more to train them, so it's important to get it right from the start.

## When to Hire, When to Fire

Don't hire until you see the whites of their eyes.

This statement exemplifies the exact attitude you must have when considering hiring additional employees. It comes from the famous instruction uttered at the Battle of Bunker Hill. The revolutionaries, who were greatly outnumbered, had little ammunition, no training, and few experienced leaders, but they looked into the eyes of the enemy without fear.

The actual quotation was, of course, "Don't *fire* until you see the whites of their eyes," exclaimed to make certain every bullet counted and none were wasted. It was a bold, dangerous yet effective strategy, which led to an unexpected victory.

We can take a lesson from this situation and save ourselves a lot of money while making certain we install the correct attitudes necessary for effective management.

## Hiring When You See the White of Their Eyes

The tendencies are to hire sooner than necessary or wait too long and allow overtime, which is very expensive. Managers and business owners tend to ramp up before they absolutely need to. Thus, incur excess overhead and build in low productivity as a benchmark.

My advice is to never hire until you are forced to, "...until you see the whites of their eyes." or until you are simply unable to process the workload in a reasonable time period. Then, when it seems as though everyone will burst from overwork...hire.

Along the way, find ways to increase productivity, so the same number of employees put out more work. That's efficiency, that's building profit, and that's controlling overhead while maintaining growing production. That is a better plan.

Develop an increase in productivity rather than simply hiring either in anticipation of need or even after the need is clearly evidenced. Wait until you see the whites of the enemies eyes: late delivery, backed up orders, paperwork not being processed in time, a bottle neck somewhere, and after extracting the most productivity you can out of the existing situation and current work team, then and only then, when it feels like you are unable to absorb one more order...then start looking for additional help.

Only when you have exhausted yourself and your people with training and incentives creating greater productivity and bringing it to its maximum potential, then hire.

Excess payroll and the resulting payroll taxes and employee benefits, coupled with accepting lower productivity from the existing employees, is a major cause of lost profitability. Overhead that is too high can cause an early demise. Lean and mean coupled with high productivity is the best path to go and needs to be a fanatical commitment to succeed.

## When to Reduce Your Workforce

Too much payroll, too many employees is the cause of many business failures. When revenues are declining, reduce the payroll as soon as the trend is identified. Yes, you may want to overlook small declines or momentary reductions in demand, but over a period of time adequate enough to identify a trend, cut the payroll. Keep everyone working to their maximum potential while maintaining the highest productivity.

Reduce the employee base as soon as you identify the downward productivity trend, and do not increase it again until the existing group is producing at the highest efficiency. It's tricky balancing the employee base with productivity and always working towards maximizing the outflow with the least possible number of employees. Every manager is reluctant to fire, because the effect it can have on the individuals and their families, but remember if you do not control costs, increase productivity, and hold the payroll down as low as possible, you may be shutting down altogether in a few months costing all their jobs.

Hiring too soon or holding on to employees too long are the two

most costly management judgment errors. Wait until you see the whites of their eyes before you hire, and fire as soon as you see the trend.

We are in a downturn which will last a long while. Downsize deeper than you believe is necessary, allow the remaining employees to work harder to make up the difference, cut deeper than you believe you need to and watch the team rebuild itself with increased productivity and do a better job. Reward the smaller employee team with greater rewards based on productivity and everyone wins.

## Job Descriptions

Creating job descriptions is something that should be done before the business opens and hires its first employee, but seldom is. Too often the step is skipped over as obvious, boring, or trivial, but I suggest it is a basic building block and cannot be ignored. How can you address any of the following issues without job descriptions:

- First, in designing your employee teams, if you fail to create a detailed job description as a starting point, how is a potential employee to determine exactly what his job requirements may be? Or are you relying on the interviewing manager or owner to design the job description during the interview? Are the specific hiring duties of the position clear? Are goals and objectives discussed in the interview clearly recorded so they can be referred to in the future?
- Even if the interview process went well, and everyone believed the potential employee is in tune with the hiring manager, what if the hiring manager incorrectly assessed the person or the job requirements, if there are no guidelines. What about the lower level jobs hired by managers, shouldn't there be guidelines to follow in describing the job requirements? How do you determine if an applicant is suitable for the job if there is not a job description?
- Are job titles so descriptive that it is adequate to describe a job by its title? Is the width and breadth of a job to be left up to the prospective employee to determine and create? And even if it is, who determines if it's in line with the vision of the owner? How are

differing visions kept in balance? How do we make certain we never hear these words? “Oh, I thought,” or “I didn’t know you wanted me to do that.” By then, it’s too late as management has already determined failure and the employee had not a clue as to the specific expectations. How could he or she?

- Is the line of reporting clear in a title?
- Are you assuming that your employee handbook covers most of the issues and details of each job in your company?
- Can job success be evaluated effectively if we have neither benchmarks nor clearly stated areas of responsibility, goals, and objectives to measure success against?

Here is a recommended exercise that is fun, informative, revealing, and very helpful in the hiring process. Why not write your own job descriptions and carefully evaluate them to make certain they coincide with the vision and requirements of the business. Then after a careful interview of an applicant you think highly of, why not ask him to write his own job description based on the interview; you will learn an enormous amount from this exercise. You will:

- Learn more about the applicant’s vision for the job, himself, and the business.
- Be able to make certain there is a fit between the applicant and the business.
- Be able to assess his writing and evaluation skills as this is an important document that he should try and do his best work on.

In the end, exchanging job descriptions, with each reading the other’s, makes for wonderful discussions and clearer communications.

It is a wonderful opportunity to make adjustments on your own job description, as it is highly likely he will add insight, thoughts, ideas, and direction for improving the vision. It’s possible that fatal flaws will reveal themselves in this process which is better to happen before making a hiring decision.

When your first employee review occurs, wouldn’t it be helpful

to be able to pull out both job descriptions, his and your own, and compare them to the job performance assessment. This can be a huge help in directing improvement or rewarding excellence.

In short, a job description is critically important. It tells everyone what the job requirements are, and if satisfactorily accomplished, the employee can be recognized for a job done well.

If you are not already using job descriptions, I strongly recommend a commitment to creating them for every job in your business. The next time you hire, you will be pleased and will better understand the value of this tool. Even introducing a newly drafted job description after an employee has been long on the job can be valuable in bringing goals and objectives to be more closely aligned with the current situation.

The simple message is: every business requires written job descriptions. Make certain you have and review them from time to time as the job develops and the business matures. You will find these valuable references.

## **The Worst Employee Problem**

I recently had an opportunity to see the incredible dynamics of “the one bad apple can ruin the entire bunch” theory at work, and it’s an eye-opening process to observe.

A towing company offers 24/7 service in a major metropolitan market. The bad apple in this case, was using the trucks, equipment, and work time to repossess (repo) cars for another business while collecting paychecks from both the original employer and the second phantom employer, the repo company. The result, of course, was the tow truck driver was not able to do his primary job very well and to have to lie and con everyone in the shop. That was the scene.

For a month while this was going on, the company seemed as though it was going through hell. Nothing was working well. Employees (all men) were undependable; they were showing up late or not coming in at all. They were under performing, or performing erratically. There were arguments and bickering among the men. They were behaving poorly with customers, not completing paperwork appropriately, and made their manager look very bad.

We could not figure out why everything was nuts for the entire month. The business’s numbers were off, of course, and the manager blamed it on the summer slowdown.

The owner and manager sensed something was very wrong, and

while not being able to immediately put a finger on the issue, knew there was a problem they needed to ferret out. Ultimately, they confronted the man and fired him on the spot.

Then just as everything had fallen apart so quickly, everything smoothed out without a word being said. The men absorbed the bad apple's production requirements without replacing him, arguing and bickering disappeared. They all began to show up on time, taking care of the equipment, cooperating and working effectively with motivation and determination, the way they had been trained.

The entire business appeared to breathe a huge sigh of relief as the employees came together as a team, working cooperatively, efficiently, and effectively with revenues increasing dramatically, while their attitude becoming incredibly pleasant. Once again, the business was productive, profitable, and ran smoothly.

It was an amazing and dramatic transformation that ran throughout the entire company, from office staff down to the cleanup guy. Everyone stepped up a notch and the business resumed producing at a very high level with far less stress, far greater results. It appeared as though everyone wanted to come to work, do their job, and enjoy the entire experience. In a word it became a great place to work and earn, as everyone was doing well.

Watching the men begin to smile, joke around a bit, and enjoy their work again was the most amazing and dramatic transformation I have witnessed in a long, long time. It was as if someone had cast a spell over the company the previous month, and everything that could possibly go wrong did, with everyone having a bad attitude at the same time.

With the removal of the bad apple, it all came together, immediately, without management or the owner uttering a single word, it transformed itself overnight. The bad apple was routed out and the bunch excelled.

Never before have I seen such a blatant example of "one bad apple spoiling the bunch," how the disease spread throughout the company and without even knowing why everyone was dysfunctional and acting poorly. Then without an outright reason, the moment after removing the bad apple, the bunch responded and miraculously became the model group any manager would love to work with. One bad apple can spoil the bunch, mysteriously invading the entire company and turning everything negative. I am certain many companies have bad apples, but because of many barriers are reluctant to confront and remove the bad apple, so they allow the

entire bunch to go bad and the business itself.

While most bad apples are not quite as bad as this one was, the effects can be the same. Examine your own business and if appropriate immediately get rid of the bad apples.

## Work-at-Home Employees

I know, we all have this vision of our work at home employees sitting around in their pajamas watching soaps, talking on the phone to their friends, and maybe doing an hour or so of work. Few small business owners feel secure in this relationship believing they will not get value for the effort. Thus, most often will not even consider this as a possible alternative.

Change your thinking...it's not so. It works.

Large corporations are way ahead of small business owners as they have been experimenting for years with this alternative work program, and here is what they have found.

1. They first offer this program to experienced, reliable employees in small doses to see what would happen. Then once deemed successful, they awarded the option to successful deserving employees as a benefit, a little at a time. They started with one day a week and slowly expand to two, three, four, and then five.
2. The results have been stunning. Productivity was measured and compared and went up with work-at-home employees. The studies indicate a significant increase in productivity for the worker. In short they get more done than when they were in the office.
3. Important to the success of the program was determining exactly how productivity would be measured, and once determined, the stay-at-home worker knew exactly what was expected and could assess his or her success independently. Giving the employee the guidelines needed to increase productivity, they exceeded more than previously attained in the traditional work environment. Performance improved mostly because the work-at-home employee appreciated this benefit and wanted to keep it.
4. Finally, to keep the office culture going and to maintain the social network, which is also important, the work-at-home employee would have a scheduled morning in the

office weekly for face-to-face meetings and to stay in touch with her workmates who were still in the office.

I believe this model will work in the small business environment as well. There are fewer reasons than ever with the advent of computers, fax machines, e-mail, and cell phones, for all the employees to sit in the same office. Everything required can be accomplished without being able to touch the person you're doing business with. In fact, with video conferencing and conference calls, this work-at-home organization is practical, valuable, and satisfying to all involved, and the employer gets more productivity in the bargain.

To try it, start slowly and follow this basic model: select an excellent employee and start with one day at home followed by more as the practice develops and works out to everyone's satisfaction. Then expand the program. Make certain you design a measuring process to determine productivity; it's crucial for successful implementation.

## **Independent Contractor Versus Employee**

Using contractors is a high stakes strategy. Independent contractors or their company gets paid the gross amount owed them. It is a total business expense to the contractor without payroll tax deductions. Employees, who work directly for a company rather than independently for themselves, have federal and state taxes deducted and paid for by both their employer and themselves as an employee.

That's a big bet; approximately seven to eight percent of the payroll tax is paid by the employer and the same amount by the employee. Many creative business owners contrive every possible way to satisfy the requirement for hiring independent contractors rather than hiring direct full- or part-time employees.

There is an IRS form that can be submitted in which the service predetermines whether or not an individual is an employee or independent contractor, although the forms lean toward determining all are employees (other than licensed and regulated professionals and bona fide business enterprises).

The general test is the degree of control the employer has over both the process and the conclusion delivered by the proposed employee. The more control over the would-be independent contractor, the less likelihood that independent contractor status will be established and the more likely the person will be deemed an

employee.

Hiring contractors is an opportunity for employers to avoid paying not only payroll taxes but workman's compensation insurance and other benefits that come with employee status including health insurance, vacation, holidays, and overtime. Using contractors instead of permanent employees is, therefore, an important strategy to implement carefully and knowledgeably by the parties involved after considering the facts.

Contractor status is frequently contested and more frequently lost by the employer when independent contractor status is claimed but eventually denied. Here are some of the controlling questions used in determining if a worker is an employee or an independent contractor.

1. Who controls the time, place, and dates work is accomplished?
2. Who determines how the job is done, what materials are used, who hires and controls the subcontractors and service providers?
3. Who determines how the process is accomplished?
4. Who designs the tools used?
5. Who determines what the results should be?
6. Whose equipment is used, who cares for and pays for replacement?
7. How is the payment for services assessed?
8. Does the worker have other clients?
9. Is a professional skill involved, a professional business organization, and a written contract?
10. Is there any risk or investment or chance for loss involved on the part of the worker?
11. Does the worker have his own letterhead and billing system?

As you can well imagine every prudent business person would prefer to have his employees categorized as independent contractors.

The IRS has the opposite in mind, so the battle lines are drawn. Control is the issue, and it is the burden of the employer and employee to win the day with decisive arguments determining that

control vests with the worker. Only then can the employee be considered for independent contractor status.

So, be prepared to argue divested control and see what happens, organize yourself accordingly and the more effort put into the response the better the result will be.

In the end the truth will usually be reflected in the outcome, if the employee controls his working environment, he will be awarded independent contractor status, although it is definitely an uphill battle.

## **Big Mistake: Making Your Best Salesperson the Manager**

Making your best salesperson your next sales manager is frequently done and seldom is it a good move. Most effective salespeople do not possess the necessary skills to successfully manage a sales department. Both jobs require significantly different characteristics as well as different skills. The best salespeople are fiercely competitive and get adrenaline rushes from the excitement of stalking their prey and then killing their prospect with a great close.

Most great salespeople are unable to do anything well other than close a sale. They typically do not do their paperwork well, too boring. They are usually unable to train others as they have no idea how they do it... they just do. They often come in late and then leave when they are exhausted, as selling requires an enormous amount of energy.

Great salespeople typically are paid more than sales managers because salespeople create revenue and managers do not. Managers require the skill to deal with upper management as well as their sales group, which requires diplomacy and other skills salespeople do not always have.

Another frequent and potentially bigger mistake is to make a great salesperson the sales manager but require him to split his time: half sales and half management. That's an impossible challenge, as a great salesperson cannot split his time and both focus on selling and managing effectively. Sales managers must manage full time to get the best results out of his group.

Managers must baby-sit for the sales group as the salespeople's personal issues and problems become the issues and problems of the sales group, and the manager must handle the issues. Salespeople do a poor job in this area as it requires compassion, understanding,

patience, and managerial skills, which salespeople typically are not very good at. Great salespeople do not have this capability at all as they hunt and kill, compete to the last breath, and show little compassion or caring for weaker salespeople.

What ends up happening is the great salesperson becomes a mediocre, or worse, a terrible manager and ends up losing his job or leaving for a better sales opportunity, and now the company has neither its star salesperson nor a sales manager. That's the typical conclusion from trying to convert a great salesperson to a sales manager.

# Employee Management Musts

## Smile, Your Employees Are Watching!

Managing your business successfully requires effective leadership skills. This we all know. Such skills require us to focus our efforts on training, allocating responsibility, constant inspection, taking responsibility for failure, and giving credit to those who deserve it.

Frequently, however, managers forget that our employees are always watching us, listening to what we say, and just as important, what we do not say. They take their behavioral cues from our words and actions, and we must always be aware of and use this reality to our advantage.

Good managers understand that their employees will react to and adopt the manager's demeanor. When things are difficult no matter what the problems are, goals not being reached, customer problems, cashflow shortfall, employee issues, and so on, you the manager must always keep the faith outwardly, demonstrating the "no problem" attitude that breeds confidence and success.

Frequently, when times are tough, if the boss demonstrates fear, depression, failure, desperation, or a negative belief in his potential success, the employees will begin looking for other jobs. When you show a lack of confidence, lack of optimism, and over-concern with an issue, then this attitude will rock the world of your employee base. If the boss is worried, they'll think, "We better be looking for another job, soon."

Businesses experiencing difficult cashflow that results in the boss complaining about not having enough capital, will result in unhappy employees, as they will no longer be supported by the boss's vision, as it is clouded.

The wrong manager attitude can create a worse problem,

destroy company moral and make it very difficult to rally the troops and gather their support as you navigate whatever difficult issues you may be encountering.

The manager must always keep a straight face, handling any issues that are barriers to success and to lead the employees through the storm with confidence and assertiveness. No matter how you feel inside, no matter how distressed you may be, no matter how serious the issue may seem, the manager must demonstrate fearlessness. If you demonstrate a positive attitude no matter what the situation, your employees will feel comfortable, in good hands, and willing to follow the leader through the maelstrom.

The quickest way to lose control of your workforce, and therefore be unable to overcome adversity, is to demonstrate your inner fear. Watch your people scurry for cover, feeling abandoned, without trustworthy leadership, and having to take care of themselves, whatever that may mean. A manager showing weakness also generates a “who cares” attitude, and it becomes more difficult to gain traction when your employees give up. Worse yet, this attitude can continue long after the issue at hand has been dealt with. It can poison the entire workforce.

It is entirely possible that the issues you are confronting are impossible to overcome in the short run, or are extremely damaging. Irrespective of the degree of difficulty, and even if the employees realize the extreme nature of the problem, if the manager demonstrates fearlessness and optimism, the employee base will still feel comforted and protected. Even if they don't know the facts or the obstacles seem impossible to overcome, they will respond favorably and will follow if they truly believe the boss. Even if he personally questions his ability to overcome the adversity, they are comforted with the knowledge that the manager believes we are OK, so we must be OK and do not have to worry. A positive disposition and a belief in future success will inspire employees to strive alongside the leader and achieve greatness in the face of adversity.

Review your level of optimism and pick it up if necessary, there is no room for whining at the management level. Your employees will follow you to hell and back if you demonstrate a “no problem” attitude...anything can be overcome.

## 11 Ways Your Personal Attitude Affects Performance

You have heard it many times before because it is true: attitude starts at the top and spreads throughout the organization, good or bad.

This is a critically important fact to understand as it frequently determines the success or failure of a business organization. Here are just some of the factors that can affect a businesses' attitude:

- ❑ Bosses that show up late and leave early present a bad example to the staff. Bosses who come in early and leave late set an example that is productive and respected; they foster better work ethics and commitments.
- ❑ Bosses that treat the employees with consideration, who demonstrate care and concern by getting to know about their employees' personal lives and families, will not only get the same respect in return, but their actions will promote the same good behavior among employees and with customers. Employees will enjoy their work experience more, performing more effectively, and the customers in turn will be happier.
- ❑ Bosses who take cash from the till in plain sight of the workers are inviting the employees to steal. It becomes common knowledge that the boss steals and there are no cash controls so anyone could steal... it's OK.
- ❑ Bosses who have no inventory controls, who allow staff workers to take reams of paper for their home office, are acknowledging stealing from the company is acceptable.
- ❑ Bosses who pay no heed to quality control will foster poor quality workmanship. Cutting corners becomes the standard, the norm.
- ❑ Bosses who have high standards and implement an exacting and professional level quality control program will instill pride in the work effort and quality in the product. This will also be demonstrated in the pride the workers have in working for such a company.
- ❑ Bosses who bend over backwards to honor their

customers, who do anything to please them, demonstrate their ethics to their employees. Thus, employees will act similarly towards the customers, doing the same, bending over backwards to satisfy the customer's needs and desires, going the extra mile, doing the unexpected and the unrequired.

- Bosses who condone bad behavior from employees, who support bad behavior as acceptable, create an environment for good employees to start acting poorly.
- Bosses who do not fire employees for breaching important company standards, condone the employees' bad behavior and it becomes acceptable, and makes breaking all rules acceptable.
- Bosses who speak poorly of their difficult customers will develop this attitude throughout the organization. Eventually the customers will feel this attitude and return the same toward the business, or not do business at all.
- Bosses who allow bad behavior in the business by specific employees without chastising or somehow demonstrating what is expected and required, will allow this employee to spoil the attitude of the many others he comes in contact with.

It seems so obvious, yet when I recently spent a week at a resort and found everyone absolutely unhelpful, surly, uncooperative in every possible way, unwilling to please the customers, and definitely not going the extra step to accommodate anyone, I was amazed. I investigated this aura of bad attitude and determined, after talking with the manager, that he treated his employees very poorly. Likewise, his disdain for his customers was also quite obvious. No wonder this attitude was prevalent. It spread throughout the entire workforce, because attitude starts at the top whether it be good, bad, or ugly.

The lesson? As an owner, your business reflects you, your personality, character, attitude, and standards. You are the definitive leader, the owner, the trend setter. Make what you want of it, but be aware that your default mode is what you bring to the business, every day. Respect your employees and customers and respect will be returned to you three-fold. Treat your business, employees, and customers with contempt and that is what you will get back. Reflect

anger and frustration and that too will be reflected in your entire company. You are the leader, and where you go the entire company will follow.

Your business is the mirror image of what you bring to it. Check yourself out; you may be the source for required change if your company is underperforming.

## **Managers Manage Systems, Systems Manage Employees**

We say many things about systems. The line I like the best is: managers manage systems, systems manage employees. Systems are a guideline telling you how to do the various parts of your job. If your business plan is on point and you follow all your systems, you will succeed.

Not having financial reports because the bookkeeper did not follow the system to create them is fatal. You will find out you're broke after the fact. Without a comprehensive sales and marketing system, procedures aren't followed. Not having guidelines for operations prevents orderly production and destroys productivity. These are the barriers that prevent us from reaching our goals. Systems are the tools to overcome these barriers. Every business has a financial department, sales and marketing, and an operations department. Each department has many tasks to do. In the sales department, there are sales calls, reports, call-backs, new prospecting, new proposals, sales orders, sale service, and on it goes.

If you analyze each procedure and draft exactly how you want it done step by step, provide tracking forms and information storage tools, you build a book of systems. The more systems you create the better. Why? Business is not about reinventing the wheel each time. It is not about improvising, doing it differently every day. It is about doing it consistently every time, the right way. It is about training the employee how you want it done every time.

If the systems are written, rather than word of mouth, then you will have the basis of a training manual. If someone is out or a new person hired, you can make certain the job is done correctly because you have a system to follow. People get comfortable. They skip steps, fail to keep important information, take the easier path, and you only find out when something goes wrong.

Companies, especially new businesses, frequently add systems as they develop. So documenting systems as they are added is an

ongoing process. This is not about stifling creativity or innovation. Systems support innovation and creativity in the proper place at the proper time. Adjustments to the system can be made based on experience and trial and error, as long as you have a foundation to grow upon.

Systems also allow managers to manage by tracking the systems. You have common benchmarks, reports, and procedures so you can tell what your employees are doing and if they are doing it correctly. A system delivers the reports you need when you need them. Your salespeople will call your customers on time with the minimum contact interval dictated by the system.

Ask your employees to draft the systems they follow. You will learn an enormous amount about how your business is being run, and most likely, it will not be as you want. A business without systems is a free-for-all, a gang of people going in different directions doing what they think they should be doing. It is as if they were walking through the woods without a compass or a map.

Having systems will increase productivity, make employees happier as then they will know what is expected and how to do their job. Systems manage people; managers manage systems. Finally, you will gain control over your business and stop babysitting employees.

## **Systems for Managing Everything Imaginable**

Systems, assure continuity, prevent errors, provide training, prevent power grabs, reduce wasted time, overcome absentee issues. Thus, increase profitability and reduce costs. Create systems for everything, everything, everything. It's what the big businesses do. You should do it too, because it works. It is the right way to run a business.

Taking telephone messages, for example, as simple as it seems and as insignificant as it may appear, is critically important to running a successful business. Documenting an incoming call requires a system. The message should have the full name of the caller, the company he represents, his call-back information, the message, best time to reply, degree of urgency, who took the message, the date, and time. Why? Because these are critical details and calls need to be handled professionally, consistently, completely, accurately, no matter who the caller, the recipient or message taker. With effective training no one will miss a beat...or a message.

This system, as with every system, must be described in writing

and inserted into a systems book that can be duplicated and disbursed to every office that takes incoming calls.

Other examples of appropriate systems:

- Fax system and reports...in/out
- Petty cash system and expense reports
- Shipping receiving, returns, rejects, do-overs
- Appointment scheduling
- Raises, promotions, hiring, firing, purchasing
- Managers budget projections, quarterly department plans, and advertising programs
- The work process, service process, guaranty procedures
- Credit, collections, payables

Described each system detailed in the smallest steps, so it can be repeated in the same way easily, so the process runs smoothly, consistently, and accurately no matter who is operating it. A written, disbursed, followed system supports a higher quality, consistent operation.

## **Be a Good Manager...What's Stopping You?**

I see it all the time. Employees determine when a product gets completed, set their own schedule, how they act and dress, with the managers and owner running around complaining about it but afraid to do anything about it. In the end, the inmates are running the asylum.

There are three very common reasons why managers and owners allow such bad behavior:

1. They are afraid to lose employees by disciplining for breaching the rules.
2. Managers and owners are more concerned about how their employees feel about and regard them than managing by the rules.
3. They are more concerned about missing a deadline or getting the order out than disciplining the employees for breaking the rules.

This management behavior encourages employees to take further advantage of their situation; it demonstrates that the rules are not important, and it is OK for employees to self-govern. When we bend the rules to try and make everyone happy the result is inconsistency, instability, and organizational disaster.

So in the end we have no rules and no respect for a management that has demonstrated they will not enforce their own requirements, and the employees are free to do as they please when they please.

Management often will reach a breaking point, and then, usually overreact by firing someone for a small infraction, the final blow, while really expressing general dissatisfaction over a long list of breaches. The manager thinks, "We will show them we mean business here. We will set an example that we do not tolerate this type of behavior."

They do tolerate it, just inconsistently. So here is the deal. Carefully consider the rules you require to make certain the operation runs smoothly, for example, attendance, production standards, lines of communication, productivity, interaction between employees, customers, management, and so on.

Once determined, you must regulate and require compliance equally to all involved. Breach is handled consistently for all and immediately by the direct supervisor. As a result, employees in orderly fashion will do what they should, when they should, and with respect.

If you have an ongoing training program, which you should, then you will never be afraid to lose an employee. If you do not, begin one immediately, cross-train as well so any position can be handled by multiple people. Restore order and decorum in your workplace. Managers will return to managing, rather than the inmates.

## **Incentives, Training, Reviews... a Career Path**

One seldom recognized, yet a very valuable goal of management, is developing a career path for each employee in your business. By making it a goal to develop a career path plan for each employee and executing it successfully, your business will succeed beyond expectations.

Here are the three components of a Career Path Plan.

- Incentive based reward system
- Manager and employee training

## □ Productivity reviews

Taken seriously and implemented effectively, career path plans form the foundation for operational success in your business. If you develop your employees skill and capabilities and install a vision as to where they can go in your business, and what they develop have to do to get there, they will have a plan and a course of action, a vision, for their own development and this will yield many positive results for the business as well as the individual

## Incentive-Based Reward

We know that an incentive based reward system which includes the rules and regulations for how you expect your employees to act and work is the starting point. This tool maximizes productivity, improves and defines the appropriate attitude dramatically, and supports self-direction and commitment to success.

It is with this tool that our workers become engaged almost as if they were part owners, and in a way they are, as they are rewarded for success so their goals become success for the job, the company, and of course, themselves. Watch the changes occur in so many ways, as your employees come to work early and leave late, support one another and work together well, and increase their productivity. They become long-term employees and everyone earns more than expected including the business.

## Manager and Employee Training

Then we train our people in many ways: to do their job more effectively, to increase their skill level, to manage more effectively, to do any number of things better. Training adds to their career path in your business and creates a long-term commitment, and increases the effectiveness of your employee base, as well as their productivity and your revenue.

## Performance Review

Conducting performance reviews cements the employee and employer together as we advance the program and the employee to new heights with a unique plan of personal development and business success.

When effectively implemented, you will see a business become a culture, a community, with everyone caring, growing and achieving.

We create standards for all to work with. It's called a career path, a plan for a long-term successful growing relationship...a career.

## Why Managing Salespeople Is a Must

Salespeople are a special breed of people. They have a very difficult and important job to do. They must be managed to achieve maximum success or they will cost you a fortune and deliver far less than they are capable of.

For most salespeople, their job is all about successfully absorbing massive amounts of rejection and still feeling successful and positive about themselves, their company, and the product or service they are selling. This is a huge task. It requires a manager to harness their positive energy and keep them productive or most salespeople will fall into the following 15 traps:

1. Fail to prospect for new business, spending most of their time in safe ground talking to established customers.
2. Spend most of their time on the biggest accounts, feigning its importance to the company. Very safe ground again.
3. Sell only the best items you have and not the entire spectrum of products. Again it's safer to sell the winners than promote all the items you sell.
4. Sell the items that are out of stock not the items that are still in inventory.
5. Always asking your company for something you do not have explaining that this is what the customer wants, rather than successfully selling what you have.
6. Letting the customer cherry pick the bargains, discounts and specials without purchasing anything meaningful. Even helping them do this by pointing out the best deals.
7. Selling bad credit risk customers, or existing customers who are a few invoices in arrears, trying to protect their relationship to preserve their commissions by selling again to the same bad credit customer.
8. Making side deals to get a sale, extending terms, guaranteeing performance, guaranteeing the sale.

9. Violating stated company policy to create a below standard sale, for example, selling below minimum levels, mixing and matching different colors, sizes varieties and so forth.
10. Cutting price without authority. Making any promise, even one impossible to keep, to make the sale.
11. Wasting time such as not filling out required paperwork.
12. Complaining about the company, his boss, the product line.
13. Coming in late, leave early saying, “No sense in making calls Monday morning or Friday afternoon.”
14. Saying anything to avoid rejection yet appear busy and committed.
15. Claiming entire months are not good times to sell: December because of the Christmas season, “no business buys anything during December.” During the summer, they claim everyone is on vacation, so there are no sales opportunities, and on it goes.

You need a sales manager who can control the salesperson, get the most out of him or her and prevent wasted time and money. Having a good sales manager is like a good team manager in professional sports and plays a primary role in overall success. A good sales manager will get lots more out of an average sales force than a great sales force will get without a good manager.

Track monitor and control...train plan and review...this is what a sales manager must do, this and a lot of babysitting, it's the nature of the beast. It's what a sales force requires.

## **Sharing Your Business Financials with Employees**

Many business owners keep their financial performance information close to their chest. They somehow believe that gross revenues, profitability, and other financial information are deep secrets not to be shared with anyone, especially not employees.

I am not certain why, and I cannot fathom the issues or the problems with sharing this information. I can only see benefits if done in a meaningful way and for specific reasons.

For example, if we want to increase sales revenue, don't we have to know where we are now in order to figure out what we have to do to beat the high water mark?

If we are measuring costs and expenses and attempting to control these factors, don't we have to share these numbers to measure success?

In production or sales don't we have to have historical production numbers to know how we are performing?

Some say that these different examples are OK. Because they are isolated aspects of the business, they do not show the entire story. No employee will know how we are performing overall with only a small sliver of information.

Apparently, it's the whole picture that business owners do not want to or are afraid to reveal to their employees, fearing that envy and greed will upset them and create unhappy employees, if they know how much profit the organization is making or how much money the owner takes home.

In the end most employees know all there is to know including the owner's take home pay because it is near impossible to keep information secret in a small business. But what is the real issue here?

Public companies disclose everything to the entire world to see, analyze, and judge and make comment on; it's public information for all to see.

Government agencies and employees, which are a huge percentage of the marketplace, reveal all and make public every financial aspect of the business of running the government. So in the end, it's only small business owners who for some reason believe it is not in their best interests to reveal this highly confidential secret information.

Somehow, small business owners believe that such information, if revealed, is detrimental to their well being. If you asked small business owners why this is so, I doubt they would be able to answer, as I am not certain there is an answer that makes sense, other than it's none of anyone's business. After all, it is private business.

Some believe that such information in the hands of their competitors will be detrimental to their competitive position. Again I hear the words but fail to see the reasons. How can such knowledge hurt the business in the marketplace?

On the other hand, I believe that if a company is well run and making profits, the employees should be taken care of appropriately

and all will be proud and satisfied with the group's accomplishments. They will feel secure and follow the leader as he must know what he is doing in order to be as successful as the numbers may say.

It's a report card, and if the business does well, it's a higher grade. Aside from a sense of accomplishment and pride, the overall profitability is a benchmark of success that the employee group is entitled to know as they contribute to it. This sort of knowledge is beneficial as it includes them in the well being of the entire community. It's a group success and even though the individual employees may not personally benefit any more than their receiving their paycheck, they are still proud to be part of a successful organization.

On the other hand, it is entirely possible that the owner has created various benchmarks for incentive-based rewards, and not only are the individual department numbers relevant, but the final score is the ultimate benchmark. The gross revenue and profitability numbers may be an excellent measuring stick for some aspect of the performance of some key managers. Thus, it is an important number to share for that purpose. A quality employee who played an important role in this success ought to be appropriately rewarded. Thus, sharing this information is a benefit not a detriment.

In the end, however, I believe all the negativity of revealing personal revenue numbers of closely held small business is way overblown and does nothing other than to create mistrust between the owner and his team. Conversely, sharing these numbers demonstrates trust and respect.

I say share your information with pride and include your employees in a demonstration of trust, respect, and appreciation, as they contributed meaningfully and ought to know how it all worked out in the end. After all isn't that the overall goal, to develop the most gross revenue you can at the highest profitability?

## **Scheduling Vacations**

Giving employees their well-deserved time off is always a challenge especially if you are running a lean organization, and not overstaffed. Each person should be playing an important role, so the organization will feel the loss of an employee every time one goes on vacation. This could cause major interruptions in the workflow for many weeks during the year. It becomes a built in excuse for lower productivity if someone key to a function is absent for a week. It's an

allowable excuse not to be able to deliver on time.

You also have the annoying scheduling competition to control. You must decide who can take what week off and in what order of priority, juggling to prevent interrupting the work process while recognizing seniority or whatever measuring stick you use to allocate priority among the workers.

The cost of vacations is far more than the payroll, it's the lost productivity that's devastating, with bad habits and lower standards developing, which can carry over when you're back in full force. How can this bundle of horrors be controlled? Here is a plan that has worked very well, and I highly recommend it:

One more observation that's very relevant, low productivity occurs naturally different times of the year and results in very inefficient operations, probably not worth the expense, and possibly damaging to your development.

For example the Friday after Thanksgiving, is a silly day to work. Depending on what days Christmas and New Years fall, the days before and after are typically another waste. In fact, the entire week before and after Christmas are two weeks during which very little happens, unless you are a retail store or a restaurant. Productivity is universally at a near standstill, yet we maintain a full force effort, accomplishing very little indeed.

The July 4, weekend is another holiday that employees stretch out. Based on the natural low productivity around this day, attempting to implement any productive plan during this week should be reconsidered. The entire business world takes time off.

So I say, let's solve two problems with one strategy, as follows:

Acknowledge there are two or three holiday periods that will yield a very low productivity.

Acknowledge that staggered vacation scheduling is destructive to the productivity of the business.

Close all operations during these three or four weeks and give everyone extended holiday time and solve the vacation scheduling issues and the low productivity around holidays. Everyone will be on vacation at the same time during these low productivity time slots, and both the business and the employee base will benefit and are much happier for it.

This plan is a net gain anyway you evaluate it.

While this may appear to be very generous, and it may be, it is my belief that you gain far more at a lot lower cost, well worth the implementation. This plan can be adjusted to meet your personal

needs; it's merely one way to resolve these common issues. There may be a need or a benefit to always staff the office with a skeleton crew performing limited and basic activities.

This is also a wonderful time for special projects, of any sort, be it overhauling equipment, cleaning, building, repairing, whatever it may be. You can allocate a few people to execute special projects during the time period.

So shut the door and send them all home during some combination of the following times: the July 4 week, the two weeks from before Christmas through New Year's Day.

Everyone is scheduled at once and the business is either totally shut or partially closed, so there are no additional interfering vacation interruptions to contend with during the year.

Everyone gets the best time slots and possibly far more vacation than normal because of our acknowledgement that there are naturally slow time periods that are grossly under-productive. You can afford to be generous and give everyone the best time off during these slow weeks the lowest productivity times during the year. Thus, probably not worth opening for at all.

The week of July 4, and the week between Christmas and New Years, and the day after Thanksgiving, or that whole week, are non productive times and can be utilized as a company shut down, giving everyone time off, a huge benefit for all employees, and gives your employees a wonderful gift as well as saving the company much wasted productivity and prevents unhappy employees, bolstering great good will and long term employment.

# Training with Purpose

## Develop from Within

Let's face facts, most jobs can be taught to anyone with a solid work ethic, a willingness to learn, and good general skills. So, if a position is vacated in your business, why not draw from within, train, and create a very loyal and devoted employee, someone who can be trusted to go the extra mile for you as you did for him.

I have seen someone inexperienced develop into a superstar when trained from within. Everyone receives the benefits. The company, the person, and the rest of the employee base are better off. Other employees watch and think well of the boss, the company, and their own possible opportunity to advance from within.

I am a firm believer in training. You can train anyone to do anything if they possess the right attitude and skills. So, we are looking for a responsible, competent, and clear thinking person who has a good work ethic. Find that person and make him an employee and find a place to fit the person in, as business is built around people not vice versa.

If you have a person on board already demonstrating these qualities, develop the person into a better job position, better for the company, better for everyone. Make it a rule, hire from within...expand from within...train and develop the expertise required to staff your jobs appropriately. Create office managers out of staff, create a production manager out of production workers, create salespeople out of production workers, and on it goes. It's called a career path and will keep employees interested for a long while as they climb the ladder of success within your organization.

Pull from within, develop from within, add to the bottom and let everyone work their way to the top. It will cost less than hiring from outside, take less time, and creates a reward system that cannot be beaten. When you hire from outside and use inside employees to train, you create problems.

## Cross-Training

It matters little how large or small your business may be I see it occur all the time and it goes like this..."Paul is out today so we cannot \_\_\_\_\_." You fill in the blank. Another rendition of this theme, "Phil is on vacation this week. We cannot get to this until he returns next week."

Or, "Betty had to leave for the day...afternoon...early... we will get to it tomorrow."

In small business, we tend to design our businesses so individuals perform specific jobs. Thus, if that individual is unavailable for any reason, that job cannot be fulfilled and production stops, be it manufacturing, service, or internal office paper flow. If Nancy is out bills do not get sent that day, or we cannot look that up. In other words unless we have full attendance the operation cannot run smoothly. It bottle necks somewhere.

Think about this absurdity. If you have ten people working for you, and each person has one week of vacation and five days of excused absence for whatever reason, this amounts to five months of not having full employment when things will not flow smoothly, some task cannot get done, completed, processed or even started. It waits, for the person to return so the business can do its job as designed. That's nearly half a year of inefficiency, lower productivity, and making someone unhappy when the job cannot proceed.

Is this a way to run a business smoothly and effectively? Of course not, but this is how it's done. Productivity and customer service seems to be a forgotten concept, when it comes to keeping a small business running smoothly. It seems that business owners accept this issue as part of the business dilemma.

Few owners ever consider cross-training. Everyone seems to be a specialist doing one thing and that's it. So, here it is: if every job or specific task is learned by at least one additional person, when the primary person is out for whatever reason it may be, the secondary person cross-trained to perform the task can leap in and save the day. So, work continues and productivity remains high despite the absence of a key player. Smoother production, greater productivity and happier customers also mean a better bottom line.

Every job in the business flow should have a trained backup so any job can be completed under any circumstance. A manager can make the decision when to call in the substitute and how to best allocate the human resources, but the key point is by investing in

cross-training, the manager can then make the decision how to allocate the talent; at least there is a choice. The business remains in the control of management and not the workforce.

This will also apply to the occasional situation where a person must be fired. If someone else is cross-trained to do the job there is more freedom for the manager to fire when necessary without fear of breaking down the workflow.

If an incentive based reward system has been installed this bit of management prerogative will go a long way in maintaining high productivity and reaching the organization's goals.

It takes time and effort but is well worth the investment. Cross-train your employees so every critical task has a backup person capable of doing the job when needed.

## **Use Training to Eliminate Do-Overs**

It's the hidden killer of profit, the destroyer of client and employee goodwill, the client eliminator, and leads to the destruction of positive cashflow and profitability. I can think of few things worse than having to go back to fix an error, a poor installation, a mistake, or whatever you call it. Do-overs are something that must be controlled as much as possible. Using the punch list concept is an excuse for allowing shortcuts and performing below standards. Do-overs happen when you have no one trained in the leadership role required to develop and maintain greater on-site control. Certainly at least one member of the crew could be learning that role.

Frequently, it appears to be the result of a poorly managed work team. Crews sent to clients' houses to install, repair, or build something, and because of unclear communication, poor work habits, poor on site management, a simple mistaken assumption, low standards, or not caring, they do not perform the job acceptably neither for the clients nor to the business owner's standards. And it must be redone.

I figure that if all the down time and hours spent discussing the situation were tracked, a redo takes as much as one-and-a-half to two times the time and cost effort required to do the job correctly the first time.

That's a huge loss and depending on the complexity and value of the materials and labor, the cost of a fix could be disabling. Worse yet, this may not be a singular experience. It may be a trend. If it happens frequently the cost should be the cause for serious concern.

First, it reveals a number of flaws, possibly the instructions were not in place or poorly communicated.

Second, it may be a failure of providing effective on site management, quality control, supervision, and accountability, pointing at poor management systems or no systems at all.

It may be an indicator of another deep issue, that there are no training programs going on, no mentoring programs, no team work, no way of supporting the quality of work desired.

It probably also means that there is no incentive reward system and no attention to quality as a requirement of the job, and certainly, it appears there are no consequences for inferior work, just lost profits.

I have seen businesses fail because of this problem. Many business owners I talk with tell me it's far too expensive to add the management they need to supervise effectively and provide the quality control required to assure a job being done. I say, "Whatever the cost, it's cheaper than failure."

Here are just some ways to curb the costs of do-overs:

- Install a tracking system with accountability and rewards for success.
- Add incentive-based pay for successful work.
- Add overview and quality control.
- Train effectively, have a program to help the younger workers improve with the help of a dedicated mentor being responsible for the improvement.
- Create a culture where errors, repairs, and re-dos are unacceptable.
- Create working teams.
- Create career paths.

Major errors need never happen again if you create a company culture that takes pride in their work. If you train and have quality control systems in place, track monitor, and control the work effort you will reap the benefits. It can be done, raise your standards and requirements and provide the systems to support them.

## Forging Leadership Skills in Times of Crisis

Like banging steel into a shape you want, over a very hot flame, leadership skills can also be forged over the hot flame of a crisis.

There are many other ways to develop leadership skills, undoubtedly, and probably a whole lot better and safer, however, crisis situations do occur all the time and when they do someone has to step up, take control, and lead the pack through the storm, safely, and securely...and that's a leader.

A leader must inspire confidence, so when necessary, his employees will follow what he says. A leader must be able to delegate responsibility to others, choosing the right person for the job. A leader must see the bigger picture yet also understand that reaching that goal requires lots of small acts done by many people.

There is nothing like a crisis to see who has it and who doesn't or who comes through it alive, smarter, more skilled. Whatever the crisis and resulting problems may be, it takes a true leader to rise to the occasion and do the job.

Rudy Giuliani, ex-mayor of New York City, during the 9/11 crisis, demonstrated that he had the real stuff. He was an excellent leader already and while this was a huge crisis demanding enormous capability, he demonstrated he had adequate skill sufficient to lead the city through this crisis successfully with the least loss and the greatest amount of protection possible.

Not all crisis situations are as severe as 9/11. That was so enormous it was a good thing we had an experienced leader at the helm to take charge and lead us through the moment, and we witnessed what a skilled leader can do when needed, they step up.

So, what should we as business owners take out of these situations? Fortunately our small business environment provides ample opportunity for us to allow our managers and executives in training to learn and practice their leadership skills during smaller crisis situations.

Crisis situations happen all the time, such as machinery down, raw materials not delivered on time, a large account goes to a competitor, storms interfere with delivery, power outages, absenteeism, untrained employees, and on it goes.

All such occurrences are typically handled by the owner, the CEO, who takes charge and cautiously makes all the necessary decisions to safely navigate out of a challenging situation.

Turning adversity and disaster into success, that's the

challenge and that's what we must train our future leaders to learn how to do, and we train them by allowing them to manage small emergencies and to learn how to turn disaster into success without missing a stroke.

Unfortunately, the knee jerk reaction of many owners and CEOs is to take over and steer the course as much is at stake. The right answer is to let the manager handle the emergency and learn how to make decisions quickly and effectively, how to lead people, how to see the bigger picture and determine what the best path may be and implement a plan to get him there.

That's leadership training under fire and it works well, forging strength and effectiveness.

Remember that management is not about doing it yourself, it is about training others to do it, and if all are working together towards a common goal...the goals shall be achieved.

Stand next to your manager, give him your counsel during the crisis, and let him talk himself through it to you. This is good training if you let him make the decisions and implement the plan even if it fails to achieve the desired results. The experience is worth more than the amount lost.

So, take advantage of the next crisis and accept the risk, let your manager handle it and learn on the job. It's the best training possible, and the only way to learn this skill. This action also demonstrates that the Owner or CEO trusts the manager with the responsibility of averting disaster and controlling losses. The commitment requires great trust. It shows respect. Much can be gained out of a crisis including creating an effective training opportunity to help develop your next leader.

# Meaningful Evaluations

## Performance Reviews

Performance reviews are frequently considered worse, than going to a dentist for most, for the employee as well as the manager. It doesn't have to be. Instead, it can be an exhilarating, positive experience for all involved, an anticipated celebration of success and positive development, a helping hand to find the path to success. It can most always be a beneficial experience for the employee, the employer, and the business, itself, if you do it the right way.

For it to be successful, the employee must evaluate his own performance, as well as have an opportunity to discuss his own desires and objectives, his needs for training, education, licensing, whatever support may be required to assist his development and success. The employer must use this opportunity to help develop a plan for greater success. The performance review should therefore become a total career path discussion, reviewing, planning, and evaluating the past, the present, and the future.

Change the review from a typically expected one-sided evaluation from the employer to the employee, to a joint effort planning and evaluation session, with positive and productive conclusions.

There is a huge difference with incredible results. You can convert what has always been a stressful, unpleasant, and usually unproductive experience to a productive and wildly positive one that directly affects ongoing performance and development of both the individual and the business.

All that and more, the performance review becomes a joint venture between the employer and the employee. With a goal to support personal development and growth, this kind of review strategy promotes excellence, happiness, longevity, productivity, and loyalty. A dream come true for everyone.

The important aspects are self-evaluation by the employee with

the employer building his assessment into a career path for development. The outcome is a specific plan developed by the two of you that maximizes the employee's opportunity within the organization.

Conduct performance reviews every six months. Take the time to develop and customize your own questionnaire each person you evaluate. Keep notes on what was agreed on as you will want to review the assessment and plan at the next review session. When combined with an incentive-based reward system, your employees and your business will flourish.

## Self-Assessment to Start

While it is important and valuable for employees to get feedback from their manager on current performance as well as expectations in the future, I believe in letting employees review themselves first.

Here is an example of a short questionnaire that I distribute to my employees to guide their self-assessment:

1. What areas of your job performance did you do your best? Worst?
2. What additional training do you feel you need to perform more effectively?
3. What do you think about how you have been managed?
4. How do you rate your ability and performance in handling your clients effectively?
5. Overall did you do your best? If not why and how can you do better?
6. Do you have any complaints about any aspect of the business and how you were treated?
7. What would you change in the business if you had the opportunity?
8. Do you believe you are adequately paid? Do you have adequate benefits?

We discuss the answers during our review after which you review the performance of the employee from your perspective.

If there is a manager involved, you may have the manager conduct the review, or have the manager involved in the review with

you, or you may do it without the manager. It all depends upon the particular situation.

It is interesting to see the differences between my review and the employees own personal self-evaluation. It reveals much about the character of the person.

Try it out; see how it works for you.

## Mastering Productivity

Productivity is the measurement of how much product or service your employees create over a given amount of time. Given that you must have projected some level of productivity in order to determine selling price, and therefore, profitability, you must monitor these benchmarks during the production process. Why presume you are as productive as required? Here's an example.

Assume that it requires two employees 2 hours each to produce an item that sells for \$100 and earns the company \$50 gross profit. The employees earn \$10 per hour. Thus, labor costs \$40 of that \$100 receipt. What would happen if it took them 4 hours each? The labor would cost double: \$80. The business would make only \$10, not the intended \$50 each time they sold an item. That's productivity or the lack of it. If the employees make the item in 1 hour, they increase the profit measurably by an additional \$20 for a profit of \$70. That's greater productivity and more profit, lots more.

Unfortunately, productivity is not a concept many business owners relate well to, nor do they use it to control their production process. They tend to allow their employees to work at their own pace, whatever that may be, believing they are working as fast as they can, and the rate of production is, therefore, reasonable.

Productivity is typically unmeasured and in America has been allowed to hover around 30 percent. That means, in our example above, the employees would work for 6 hours to produce the item and the business would lose money every day.

Worse yet, is the typical solution. To build production to meet consumer demand, they hire more people and lose more money, as opposed to increasing efficiency and productivity. To add insult to this problem, if the business owner truly wants to get more items out the door, he allows overtime, a reward for low productivity, which creates greater losses while the employees make more money.

This is typical American small business management. In most businesses I review, the production workers have no idea what is

expected of them. They are unaware of the amount of time the business owner has determined should be spent building the item, so the employee has no reference point for delivering adequate productivity. I even see businesses where productivity is measured but not told to the workers, so it does no one any good at all. Also it is clear many business owners have not done productivity analysis and have no expectation at all as to how much time must be spent to produce the product or service. Thus, rely in the standards the employee determines are appropriate.

Further, if a worker knows what production time is expected, and if he is given an incentive he will do his best to not only achieve this standard but to beat it...greater productivity. That's the goal, hold costs, and produce more.

The more advanced business owner ties his workers' compensation to their productivity and somehow rewards them for greater productivity, and yes, fires them for low productivity, or better trains them to work more efficiently.

Develop a key indicator system to track, monitor, and control productivity. Measuring productivity, allows management to make the changes required to maintain profitability. Never allow overtime. If everyone works fast and effectively maintaining quality as well as speed and the business makes money as do the employees who are now paid for production not for time spent.

## **How Firing Benefits Employer and Employee**

Firing ineffective, under-producing, problem employees is usually a difficult situation for the employer, as presumably, no one likes to do this. However, it is a blessing for all: the employer, employee and the remaining employees. It will be easier to do if we understand this basic principle.

I have had to fire hundreds of people in my many business enterprises over the years, and I have observed one very important factor, everyone gains from the experience. Thus, in all reality, it is a blessing in disguise.

Here is why. I believe. If the working relationship is not good for the employer, it cannot be good for the employee. As with most relationships, it is a two-way street, and it cannot be good for one side and unacceptable to the other. It is either good for both or unacceptable for both...that's what I have observed.

Unfortunately, not every employee may understand, so the job

of the firing employer is to explain this concept as the basis of the firing...freeing both the employee and employer to find a better relationship, one that works for both.

Everyone wants to be appreciated, respected, and successful. Nearly everyone wants to be productive. If an employee does not achieve success, and in fact, is experiencing the exact opposite: negative feedback, complaints, low job satisfaction, and the resulting feelings of low self-esteem and self-doubt and perhaps pure discomfort with the job, release from this situation is good for all involved.

Explaining this principle to an employee that I am about to fire, typically arouses agreement and relief. "If it isn't working for the employer, it must not be working for the employee," I explain, "so it's best for us both and to part ways. It's a positive decision."

Met with agreement that this firing is really best for all involved, so the employee can find a job better suited to his skills and needs, and likewise, the employer can also find a better fitting relationship, the exit strategy then becomes a win-win discussion doing what's best for both.

Firing an unhappy employee by an unhappy employer is a blessing in disguise for both. It's an act of benevolence, and when presented in this manner, most employees say thank you and appreciate the opportunity for candid communications and positive action.

It does not have to be as negative or destructive as most believe it is. It's no longer who did what, that's history, it's now about what's best for both. It can be a positive conclusion.

# Get Onboard with Social Media

## Social Media for the Business Arena

We have all heard about the power of the Internet as a business tool, so we all have Web sites. Many are enjoying the benefits of blogs and video attached to our sites. The next Internet wave of business tools is social media: Twitter, Facebook, LinkedIn, YouTube, and blogs. These tools are more subtle, as they resist direct marketing efforts, but when used effectively, can provide a huge impact on the marketplace. Yet, many businesses have been slow to adopt social media marketing strategies.

MarketingSherpa compiled a chart based on a December 2008 survey showing the effectiveness of social media's different uses.

There are some interesting statistics in their report. Most striking is how the effectiveness of social media far outweighs ineffectiveness. Over 90 percent of companies interviewed believe social media is most effective in building brand reputation and awareness as opposed to direct marketing strategies.

"You might expect the revenue-producing goals of direct marketing to rank higher than branding during a recession," says MarketingSherpa. "The conversational and relationship-building nature of social media, however, is more synonymous with PR, which is more likely to help accomplish branding goals."<sup>3</sup>

Still, the direct marketing potential is nothing to shake a stick at. Their data illustrate wonderfully that there are a variety of ways your business can benefit by using social media. Irrespective of what your specific goals may be, social media tools such as Facebook, YouTube, Twitter, LinkedIn, and so on, they apparently reach the market very effectively and influence your customers' actions and opinions.

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<sup>3</sup> Crum, Chris, "The Business Goals Where Social Media is Most Effective," <http://www.webpronews.com/topnews/2009/02/17/the-business-goals-where-social-media-is-most-effective>, February 17, 2009.

If you are unsure of what this is all about, ask your teenage son or daughter to explain it...you'll soon get the picture of how powerful and far reaching these tools can be.

## **Social Networking Is the New Wave**

So, yes, folks it's time to tweet on Twitter! Make friends on Facebook and star in your own video or podcast on YouTube. You might be saying, "Why should I be thinking about this? What are the benefits? What happens if I don't do 'it,' whatever 'it' is, this social networking thing?"

Your opinion about social media and your belief in its potential value are irrelevant. If you are not using it, then you are not yet aware and need further enlightenment along with an introduction so you, too, will 'get it,' as did I. It's simple, just pay attention, follow directions, implement effectively, and reap the benefits.

The point of being involved in social networking is: action, growth, development. It is about how we as a society, the world, are changing our ways of communicating. Social networking tools, vehicles, and contexts are what we need for this new way. By exchanging real thoughts and views and getting personal, the message comes along for the ride; it is not the main act. This approach is refreshing and very relevant. Stop thinking how stupid it is. Instead, investigate and then do it. You might be surprised how many are awakening to this new and changing reality. Let us be the leaders. Millions upon millions of people in our society are tweeting, making friends on Facebook, watching video clips as well as reading blogs, far more than anyone ever imagined.

The revolution has happened, let's usher in the changes. To market effectively, we must utilize effective business modes, tools, and vehicles for delivering our messages.

Right now social networking is the next wave. Be early this time, stay ahead of your competition. Grow and prosper in the face of a declining marketplace, take a share from your competitors. Social networking is how to communicate effectively to the world today.

As I theorized when I wrote my first blog post on Wordpress, it would change the way I market and communicate. It did. My entire marketing program is based on sharing valuable information and creating relationships through social networking, which sometimes results in a sale.

Now is the time to get on board and take your business

marketing to the next level. Create a broader, deeper, more dynamic and powerful social network, and then do something with it. Aaaaaaaaaall aboaaaaaaaaaaard!!!!!!

## The Power of Social Networking

If you are still questioning the viability of social networking, look at the following statistics:

- The Facebook nation has the third largest population in the world after China and India.
- Twitter is experiencing upwards of 2 billion tweets per hour.
- YouTube had 100 million visits in January of 2009; the frequency is way up since then.

If these statistics do not convince you to reconsider the viability of social networking, consider that Pepsi Cola, has decided not to advertise on the Superbowl this year and instead has invested \$20 million into social networking media..... are you paying attention?

These numbers tell it as it is. To ignore social networking is to do so at your own peril. The future is here, today, and you must get on this train or be left behind. If not yet, your competition will figure this out sooner or later, and when they do, you will be forever playing catch up and losing. The opportunity for you to create more revenue and develop additional sales and marketing tools and to reap the benefits is extremely important to your long-term survival and success.

Yes, we are experiencing the deepest downturn in our modern economy, and many are suffering from declining revenues. Downsizing and rebuilding is the mandate. Utilizing the Internet for marketing purposes is a necessity. It is very cost efficient, and extremely potent. Forget newspaper ads, traditional media tools. It is just like what is happening to the telephone booth, and the land line, taken over by the cell phone technology. Join the revolution before it passes you by.

## Facebook, the Next E-Commerce Wave

If you have kids, you understand the power of their Facebook insertions. You can see the importance that this social networking application has in your children's lives. It is the face of America. The first to know the value of and become immersed in Facebook were the demographically young, under thirty. Typically, small business owners are older and thus, are missing this tidal wave of connections and communication called social networking.

The subtle but important point is that these social media networking tools are also a marketing opportunity of immense power if used properly and consistently. They allow us to reach a huge market in a very personal and meaningful way. This is not about pandering your products or services or hard selling, it is not advertising, it is all about talking with and becoming part of this social media revolution called social networking, the business application has enormous potential.

Blogs are a huge part of this as well, allowing a dialogue between interested readers, transparent, unmonitored, uncensored, relevant, contemporary, interesting, valuable, potent, and powerful. Free! Yes, free. Can you imagine what it would cost to talk to hundreds of thousands even millions of people? Yet, social networking is free!

It requires honesty, integrity, sincerity, candor, focus, and relevance. If delivered effectively, you can reach millions of people and subtly create a relationship with your market, which eventually will result in revenue.

It's a new way of thinking, a new way of marketing, and it requires a new mindset. It forces you to understand what interests the marketplace you are seeking to communicate with. It forces you to be relevant. It moves advertising and marketing to a whole new atmosphere, an atmosphere typically very foreign to business. A place where people can exchange ideas, information, and explore thoughts beliefs and feelings. It forces us to become transparent and real. It separates the wheat from the chaff. It is new and powerful.

Ask your kids about it. My twenty-four-year-old daughter called me the other day and insisted I investigate Facebook and become a part of this social media revolution. She said 'everyone' is in it, and businesses are using it to communicate with this vast marketplace.

I am listening to her as I am out of touch. I am exploring it. It is uncomfortable for me as it is different and new, but it is the direction

the communication train is going – I want to be on it. The numbers are staggering. We cannot ignore this revolution. Get relevant. Get on board with what's happening...social media networking.

## **How Social Networking Works for Small Business.**

Social networking is a new concept, especially for us older gens who have not grown up with Facebook, YouTube and IM (Instant Messaging). The big question I have is, how does this help business? I have learned quite clearly how blogs work, I write posts for my blog every day. Thousands of visitors read my posts. It's the free dissemination of valuable information and appreciated by many who read it. I know as they tell me this in their comments. What does it do for me?

Sometimes a blog post creates business opportunities; most times the reward is the gratification of offering help to someone who will benefit...without my expectation of any return. How does that help my business? I believe it helps me become a resource and a recognized part of an allusive community with members all over the country and around the world. People return and learn from my posts and become part of my unique community. They develop a relationship with me, one of trust, and when needed may become clients. Allusive? Yes. A different approach? Yes. Does it work? Yes.

I speak with a half a dozen people each day whom I invite to consult with me on my blog posts about their business debt issues with no obligation. To most I give advice; some retain my services. That some hire my services is a welcome and the obvious benefit that works for me and my clients, but the true value is in the dissemination of valuable information. The ones I *give* advice to are the more interesting as that is the true meaning and value of social networking, sharing valuable information, solving problems, and doing it without expectation of a return. The blog interaction creates a social network that supports my business mission. I enjoy it thoroughly, and benefit from it significantly. Yes, it is tough to figure out but go with it; the benefits will become clearer as you develop your own community.

Verizon has discovered the same worthwhile results in a different application with a social network twist. They are experimenting with the one percent of their users (customers) who are experts in the setting up networks, HD TVs, and all the other

applications the company offers. These services are typically handled through India customer service support. In this experiment, the other customers' issues are handled by volunteers, online experts who want to help others needing technical assistance.

By nature, people want to help one another; they crave community. It may be hard to believe in this day of greed, but it remains true. People want to help one another and be involved in others' lives. People who are very good at something, say hooking up in-house telecommunication systems, which is very confusing to most and mastered by a few, are willing to spend their time assisting others in overcoming their technical barriers. They take the time to help others in need of this technical support. Verizon reports that some volunteer experts are putting in upwards of 20 hours per week doing an incredible job helping customers hook up their electronics.

Instead of talking to India and getting a low level of non caring technical support, now people can talk to volunteers who are online for the purpose of helping others overcome their issues. It costs Verizon nothing as these experts are doing it because they care and want to, not for a paycheck, and the results are stunning. The one percent are willing to help the 99 percent because they get the point of social networking. They participate because they care and enjoy the rush of helping others in need, free without expectation of a return. People volunteer to help people in a business environment because they care and enjoy being part of the developing social network. That's new to the traditional business model. That's radical.

It requires a leap of faith to implement social networking. Perhaps, you can try a blog first, maybe Facebook second, then advance to a video on YouTube and then twitter. By then you will be a regular participant in Web 2.0, the new world of social networking. Welcome to the future it has arrived.

# Marketing Without Money

## Effective Low-Cost Marketing for Local Markets

As we carefully measure the degree of damage, or in more precise terms, reduced revenue and increased costs we are experiencing from the current decline of our economy, advertising spending tends to be one of the first cuts owners make as it appears unnecessary or at least not critical, or so it seems. Yet, this may be a great time to expand marketing to take a share of the market away from our competitors. A local marketing program I have seen work extremely well operates at a very low cost, yet with measurable and positive results.

I have witnessed a contractor who climbed from a new entry start-up into the local building market with no clients to the market leader in a few short years. The owner participated in the local political arena: first volunteering for various positions and slowly building political strength, then being appointed or volunteering for higher visibility positions, and eventually, elected office.

Along the way, his involvement attracted business automatically. Without a mention of his work or his desire to build business, he simply attracted business by his selfless volunteering for local political positions. It worked like a charm. It took a year or two to catch on, but he was able to build business almost immediately and it has not stopped since.

A second rendition of this public service idea was developed by another business owner I know who built a very successful regional business on the backs of children. He offered to sponsor any sports team anywhere within his region, which spanned a number of towns in a county or two. He provided the printed T-shirts. Over the years his sponsorships amounted to many dozens of teams and a \$60,000 per year budget in every imaginable sport. He created such good will and such local brand recognition that it was all the advertising his company needed. He literally built his business on the T-shirts the

kids wore. The parents were grateful and the community knew the company name. His business is now the leader in the local market area.

A third approach offers sports teams, Boy Scouts, classes, clubs, and so forth the opportunity to sell the services of the business and then split revenues for sales brought in, which was a much higher value than selling Girl Scout cookies. With the right product, it is a great idea that is inexpensive, creates tremendous goodwill, and brings in local business.

We must continue to market, advertise and build our share of the market, even in a declining economy. It requires creativity, effort, and imagination...it must be done.

## So Many Wasted Advertising Dollars

Advertising and marketing are crucial programs that too frequently result in wasted dollars and disappointing returns. What seems to be the problem?

Successful advertising requires an investment. Small, infrequent ads have very limited power and usually very limited success competing against powerful, frequently run large-space ads. So why waste important dollars on ineffective traditional space advertising?

Here are a few suggestions that may result in a better response for fewer dollars.

- Referrals. Frequently, there are waiting sales within your past customers. It's another form of networking that is often overlooked, and a very likely source of additional business or valuable referrals. Call or write to ask your customers for referrals.
- Press Releases. Will Rogers said it best, "It must be true, I read it in the newspaper." It's free, and it works. Write a press release and send it to the press in the market you are serving.
- Your Web site. It is crucial, as it is expanding your use of Internet technology, which is available for low cost promotion such as blogging or video-casting. Very powerful, not necessarily expensive, and it works 24 hours per day all over your market area.

- Hand outs, fliers, newsletters. All are low cost and have potentially high impact.
- Postcards. Use them to make a statement, use humor. Here is a tip: you must plan to send at least three to a potential customer. By the third one, your message will be noticed and recalled.
- Tradeshows. Attend as an exhibitor, but you must be more than an exhibitor. You must use the show as a springboard and support your presence with all the above programs before, during, and after. Have a well thought out display and interactive program in the show. Just showing is not enough. Walk the show and talk to the other exhibitors within the same industry, and you may be able to sell to them or create positive strategic relationships. Everyone important in your industry is there.

Finally, and perhaps most important, is the following suggestion. Define your message and how you are delivering it. If you are telling your audience what they already know and expect, then you are wasting your money. If you are telling your marketplace why they should do business with you, what separates you from your competitors, you will achieve success. For example, is it important for a moving company to promise safe drivers? I would imagine that's expected, but what do you do that is special or that differentiates you from your competitors?

It is all about creating a relationship with your prospects by stating what you do uniquely and what a consumer would want to learn about. What is your guarantee, for example, how can they communicate with you, what do you know that they do not know about your service? Talk meaningfully to your audience, teach them something with your ad, and once you begin to create the relationship, the sale will come along. Remember to sell yourself, your company, and then sell your service...in that order.

Financial stress is not an adequate excuse for not advertising or marketing, it is a necessary function for any successful business. But there are many avenues to pursue. Find the right ones for you and use them. The only bad advertising program is no program at all.

## The Forgotten Benefits of Public Relations

Small business is most always searching for additional capital to invest in its growth and development. In fact, advertising programs tend to go first when cash is scarce, unfortunate but understandable. Advertising is a necessary component required to support the projected sales and revenue projections but quickly dispensed with when cash gets tight. Advertising support tends to dwindle in the face of inventory requirements or payroll. Frequently, inadequate dollars are assigned to support advertising and marketing from the beginning, as the demand for cash for so many other good reasons is typically overwhelming.

So, consider including public relations into your program. It's free, it's powerful, and it works very well if executed appropriately, either in support of a major marketing effort or standing on its own, but it is frequently overlooked. Here is how it works.

Write a press release about some interesting aspect of your business or service. Use a soft sell, as the story carries your name with it, and that's the goal, that's what counts. It cannot be about price nor can it sound like an advertisement. It cannot be completely self-serving. There must be a human interest aspect to the story or it will not be printed. If it is printed, it will serve to support your brand or company's name recognition.

A press release works best with local and special interest newspapers or magazines. They tend to have low budgets and few writers or reporters, and thus, they appreciate and use quality space fillers, news, or human interest stories, especially when they have local community ties or a relevant special interest.

There are also many coupon books and other high distribution advertising pieces that print news releases about local businesses especially if supplied and well written. You can get significant, quality coverage at no cost.

A similar approach, but possibly even more self-directed, can be accomplished by sending a release to local, regional, and national trade magazines that focus on your product or services. This approach of course should carry more of a wholesale message, business to business, while the public press release should carry more of a consumer message. Both work very well, if properly written.

Sometimes purchasing a small ad will help grease the way for a press release to be printed, but a press release still must be reasonably well written. Sometimes you need to send two, three, or

four releases, all being rejected but eventually your fourth or fifth one will be printed. It will be well worth the effort and wait, as the results can sometimes be stunning.

Public relations, in this case press releases, should be part of a larger advertising and marketing plan because it works very well and even if the cash has run out. Add your press release to your Web site for your Internet visitors to read. (If you do not have a Web site, get one as soon as possible.) E-mail a newsletter, with your press release in it, to your mailing list. Purchase email services that will blast your press release to your prospective customers. Try to drive them to the Web site and possibly compel them to inquire about your product or services.

Do not forget public relations, write a public interest article in support of your advertising and marketing program and publish it.

## Great Logo Graphics Reasonably Priced

Image is important. Marketing begins with your name and logo. Your logo says much about you and your business. Graphic artists can be very expensive, and you never know what you are going to get. So hiring a good logo designer can be tricky. Unfortunately, as happens most often, you get what you pay for. If you go for low-priced graphics, chances are you will get inadequate results.

Frequently, small businesses opt for no graphics, but instead use computer-generated, type-only display of their company name for a business logo. Using a standard type font to communicate your brand name is not inspiring and communicates no message other than you did not bother or could not afford it.

There is a way to create a logo with outstanding graphics without breaking the bank. Recently the *Wall Street Journal* reported on four national logo design companies they tested that work through the Internet and telephone, providing quick turnaround services and delivering high quality results. At the time of their report, the prices for developing a custom logo ranged from \$99 to \$1499.

Here are the companies the *Wall Street Journal* looked at:

- The LogoCompany.net
- LogoDesignCreation.com
- LogoDesignGuru.com
- LogoLoft.com

All four were given the same company name and asked to submit four different concepts. The resulting logos were all professionally done and worthy of consideration. All appeared high cost and provided a variety of quality choices to match personal taste.

While not free, they are affordable with quick turnaround and great result. Using one of these recommendations is an excellent way to go. There is no excuse for not having a quality image and an excellent logo.

Here is another great idea, promote a competition with a prize for developing your next logo, add, or anything graphic you may need. Put it out to the community at large and let all the aspiring graphic designers compete for the prize and provide you with hundreds of suggestions. This works great. The results can then be a pre release with more bang for your business.

## **9 Fast Ways to Become a Recognized Expert**

Frequently, it helps to be recognized as an expert in your field of business, a specialist with trustworthy credentials, because it establishes your credibility. How does one become an expert? The traditional path: spend a lifetime in the industry arena, earn relevant educational certifications and degrees. The traditional method takes a very long time and is impractical for the new entrepreneur who wants to enter the business arena as a player.

There are alternative paths to reach the same goal of being recognized as an expert. Here are some ideas:

1. Learn about what's important in your industry today and become current. Every commercial niche has one or more trade magazines. Obtain a few back copies, three at least, and read them cover to cover, noting the editorials, as that's what's currently on the minds of the industry leaders. You should understand and adopt the opinion of the lead editorial from the lead magazine in that genre. They know what is best for their industry. You should be adept on the subject and have an opinion or two of your own, of course, as you are an industry expert.
2. Note the advertisements, as they will tell you what's new and what is important to the industry as well as what are the leading businesses and what they are talking about and selling. Of course read the letters, the articles and

everything else as it broadens your awareness and information base.

3. Write an article and submit it for publication in one of the industry magazines, which is not as hard as it seems. Once done, you are a published writer in the industry. If you have trouble getting an article published, write a letter to the editor or respond to one, that's easier, and will start the process going. People will see your name and read your material.
4. Create a Web site and a blog. Begin to communicate with your market discussing the issues and creating an open forum with you as an expert. Highlight your involvement as well as your diverse commitment to the industry. You can further establish your credentials and publish your materials including the press releases, articles, and so forth.
5. Create your own podcasts (video or audio) based on your blog entries. Post the video on YouTube. You can post your audio to iTunes. Some people find it easiest to start with Audio Acrobat ([www.audioacrobat.com](http://www.audioacrobat.com)); you can phone from anywhere to record your podcast, and they feed it to the various podcast hosting sites such as iTunes.
6. Just about everyone lives near a university, college, state school, technical school, some bastion of higher education, and learning. Offer a professor or department head the opportunity to have you speak at their forum on a subject relevant to you and their interest group at no charge, of course.
7. Offer a local club, association, or a service organization programming chair the opportunity to have you speak on a subject relevant to you both at no charge.
8. Run your own seminar, it has the same effect—building your credentials.
9. Become a corporate speaker. If your subject matter has commercial application, you may be able to get a local leading business to let you speak after hours, during lunch, or a business meeting. Being a public speaker at

leading businesses and corporations adds to your credentials.

10. Send out press releases to the local press repeating your credentials and promoting your speaking, or writing, or seminar or whatever you have to promote and a message that you are delivering, that is of interest to and important for the general public to know about.
11. Join a national trade organization for your industry and offer to write for the newsletter or magazine, a monthly column on interesting aspects of the industry. Of course, mention your name and business at the end to cleverly insert yourself subtly and tastefully into your writing, or be sure your article at least includes a byline with your Web address. Now you're writing a monthly column for the industry trade magazine, you must be a respected expert.
12. If you can afford it, give a seminar, have a booth, get on the board or any committee for the organization's national tradeshow, all these options give you enormous credibility and visibility. Speak at the tradeshow, sponsor an event, get known. Be a presence.

You have begun to cement your reputation into a solid foundation of respectability. Now you can add to your credentials: nationally recognized and published author, lecturer at universities and colleges, a nationally renowned expert on \_\_\_\_\_. You fill in the blank. In the end, marketing you as the expert leads to more business. The sales come along for the ride.

## 7 Rules for Using Specialty Items

We see specialty advertising items everywhere: pencils, pens, T-shirts, refrigerator magnets, plastic rain hats. The list is endless. There must be something to it; the ad specialty industry does multi-billions of dollars of business annually. But there are a few tricks and tips that can help you make your investment more worthwhile. Here are the rules, and if followed, ad specialty items can effectively support an advertising and marketing program.

1. The medium is part of the message and carries your message and image.

2. To have any impact at all, and therefore, not be a waste of money and effort, the item must be memorable for some reason: originality, humor, quality, design, or type of item. People are inundated with tons of ad specialty items every year, so your choice must stand out.
3. The item must fit in with the working or living habits of your potential clients, so it is often used, appreciated, and serves as a real reminder when the time is right. Your logo and slogan printed on coffee cups, water bottles, or stickums for office workers. The go-to coffee cup for the right client is useful, used daily, and will be there when the reminder counts.
4. Buy something of quality and give out the item everyone really wants, the good one. Do not bother to distribute junk and believe it will return with quality clients. Junk carries the message of junk. The item must be even better than expected. It must not only work, but provide some valuable or frequent service or pleasure. Something that clients will covet and use, and that's the goal. It's worth a few more nickels or dimes or even dollars to make the right impression. T-shirts can be great reminders, but golf shirts may be better, more likely to be worn by your client and not his son.
5. You want something that will last and be a constant reminder to the recipient that you exist when your service or product is required. Hopefully, the prospect uses it frequently and it stays around for days, months, or even through the year.
6. Calendars can work if they are tasteful and not too self-serving. Even pencils can work, but the item must be distinctive, well done, and memorable as well as usable.
7. Keep in mind who makes the buying decision, as it is frequently not the owner but an empowered staff person with the responsibility to order or purchase. That's your Customer. Give the well thought out item to him or her and repeat as necessary.
8. For a high-value client, purchase a top-of-the-line specialty item costing over \$200, which instantly

becomes a favorite item for the recipient and a warm constant reminder of the giver...you and your business! Well worth it.

Maybe you will need to have a few different gift levels, differing in value and purpose: one or two to remind potential clients of your presence; one for existing clients to say thank you; one for special potential clients that you want to impress.

One of my clients tells me American flag refrigerator magnets are his best promotional item. Another says the Red Sox schedule; while another uses printed Post-it<sup>®4</sup> notes. Hats, T-shirts, and coffee cups can be great items as well, but the design and message will determine the long-term effect. If they love it, they will use it, and the good will occurs. If the design and function aren't adequate, then it will deliver nothing

Give often with high quality and well-thought-out items; and the response will be ten-fold in return. It will come back to you in many successful business dealings and relationships. Using specialty items for advertising is a most valuable and important strategy that cannot be overlooked. You will get the business.

A planned and effectively executed ad specialty item can work wonders for you. If done without appropriate thought and planning, it's a waste of money. Select carefully, design well, and have a quality distribution plan, and if it's a winner, you will achieve your goals.

## **Attend State and Regional Tradeshows**

You're probably aware of and may even attend the national tradeshows in your industry or profession. Frequently, we make the significant investment required to attend and display as an exhibitor, hoping to connect with distributors, chains and significant stores, create broker relationships, and so on. It is a huge opportunity to create a national presence and impression. Usually the results are disappointing, however, as it is very difficult to be noticed and taken seriously if you are an unknown trying to break into the national scene at a national tradeshow.

Most business owners wanting to make a national impact seldom, if ever, consider the state and regional tradeshows. Often they choose not to display or even attend. The savvy few

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<sup>4</sup> Post-it is a registered trademark of 3M

understand the potential. For the others it's a missed opportunity.

To be honest, it's absolutely true; most state and regional tradeshow are a little lame. Often only a handful of exhibitors display, and while most major players in the state or region do appear, it's mostly a social event. There is typically significant communication and service between the exhibitors and their attending clients all year long, so for most, the local or regional show acts more as a gathering than a place to do business.

The major national players typically only exhibit at the national shows as they are way too big and important to show up at state or regional shows. The state and regional shows are really owned by the state and regional players.

I say what a gigantic opportunity to make significant inroads and create a huge impact on the exact market you want to penetrate. Few ever see it this way. Even at the local level, a tradeshow puts hundreds or thousands of your potential customers in your reach, instead of having to drive, fly, or spend an entire day to see two people.

Let's assume you are a smaller manufacturer, distributor, or importer, for example, and want to do business nationally. If you make the huge investment to travel, attend, bring a few salespeople, and exhibit, you need to pray you attract enough business to break-even at the national event because the large players, the national stars, monopolize and dominate.

It is extremely difficult to break into the limelight in a national show if you are not a nationally known and well-established company. But at a local or regional show it is quite a different situation altogether, and what an opportunity it is.

Attending a state or regional show outside of your state or region makes you extremely unusual. National players, even small ones from outside of the region or state, rarely ever turn out for the shows. They are too small and generally ignored. Thus, you can play a high impact role as you may be one of the only exhibitors from outside the region that cares enough to show up.

All of a sudden you're in the limelight, or better said, you are the limelight, and you have everybody's attention as the only new displayer at the show. Everyone will be at least a little interested to see what you are showing and have to say. You will experience this huge advantage just because you showed up.

Better yet, you will be able to speak with any distributor, chain, or store in the state or region as you will be the place to go. Why not

sponsor the lunch, be the keynote speaker, or do whatever is offered to stand out further and make it clear you are there out of deep respect for the state or regional association and market area. How flattering, they almost have to do business with you.

If you have a broker he will be in heaven and will use your booth as a hangout. He will drag every important and interesting contact into your booth to meet, greet, and get to know you. Yes business will be done; maybe not on sight, but the introductions will result in business.

If you want to pick up a broker for the state or region, they will all be there and will flock to your side like flies, hovering, bringing business, and wanting to represent you; you are the new action.

One final point, state and regional shows are typically very inexpensive and only last for one day. So it's very low cost and a huge impact opportunity. It's being the big fish in the small pond. So what would happen if you did the California, New York, South East, and New England shows? It would probably result in a huge and successful marketing strategy generating far more business than any other tradeshow strategy you could devise, especially for the cost.

In addition, you can socialize, create relationships, and hang out with the state and regional big dogs. So the large players in the state or region will know you, do business with you, and open doors for you as you have gone were few others bother to go...to the local and regional shows. It's a terrific strategy that will yield huge rewards.

## **How to Successfully Work a Tradeshow**

While a regional tradeshow provides one of the greatest opportunities available to help you reach your market in a high impact personal way that is both extremely cost and time efficient, it requires serious preparation and a game plan. Only then will a tradeshow be a bonanza, an opportunity to meet and create quality relationships with dozens of potential customers, large and small, from which sales will germinate.

Depending upon the type of show and the type of product or service you are marketing, frequently the objective at a tradeshow is to create personal relationships and fight for the order later on after the show. So even though it can be extremely difficult, restrain yourself. Rather than sell first, make friends then talk business later after you've developed the relationships.

Some shows are very local designed for businesses marketing to

individuals, homeowners, parents, kids, men, women, athletes, and everything in between. Some are wholesale distributor or chain shows. Frequently, they are divided up by the commerce the show represents so everyone there is a potential customer and is interested in your product or service.

I have a client that makes a half year's business volume at one of the regional agricultural shows selling a professional service. Knowing that out of every hundred people that walk by, five will be interested in talking, he takes their names and creates appointments for follow-up after the show that result in dozens of paying customers.

OK, so how does it work, what should you do? Prepare and begin long in advance. Here are just some of the things you need to do when planning ahead.

The booth, itself, must be designed and built to be easy to transport, set up, and break down.

- The booth, itself, must be designed and built to be easy to transport, set up, and break down.
- Have your information and samples, price sheets, catalog sheets, business cards all in adequate quantity to be given out to thousands of people and last the length of the show.
- Decide what your strategy for engaging prospects. Are you going to be the three table booth with fliers on the table and that's your presentation? Are you creating some point of interest so the show walkers will gravitate in and want to engage? Will you have samples available? Maybe you will create a specialty advertising item to give away. Think about which approach will work best to introduce your product or service to potential customers.
- Why not begin calling key distributors, store owners, or whomever you feel will be a quality customer and start arranging meetings weeks in advance. Announce your intent to be there and ask to meet and get to know potential clients so there can be future business discussions. Suggest meeting at your booth then going out for drinks after the show, or get contact information where the person is staying at the show so you can make plans for dinner or something....get the point?
- Why not have dozens of contacts and calls with a wide

variety of potentially important relationships. Invite some to come by the booth to review your product line. Others you may want to meet off the floor and invite the wives to go sightseeing while the men do business.

- There may be a show newspaper. If so, you want to advertise in it and ask them to do an article about your business. They will report about the various interesting exhibitors. Advertising should get you a mention in the review sections, and it's worth it, you need to create a buzz about your booth.

I have attended dozens of tradeshow and have displayed in dozens observing those who win and those who lose. So here is reality, the buyers that go to the show are intending to see the people they are already buying from or selling to. They leave very little room and time for the unknowns, those they are not doing business with. So, what do you do to break through this barrier?

Hook 'em into the booth and talk fast. Attract them by personal drawing power using an intriguing question, clever line that promises a benefit, or an irresistible offer. A show special is a typical practice of giving an extra discount if an order is written at the show. Even though we all know that they can have that price any time just by asking, it's a good deal opener.

Pull them in using a spectacle ...a model, a super hero, an athlete, a star, a contest, whatever you can imagine that will attract attention, slowing passers-by, drawing them into the booth, and giving you an opportunity to sell or at least to talk to them about your product.

Will it work? Some of the attempts will work better than others and that's a whole lot better than none. Some will become customers now, some later, some next year, but the opportunity is magnified and concentrated at a show. Meet and make friends. Get to know as many people as possible. Also, next year's show is also around the corner, and next year will yield huge returns as then you're a regular. Your market will know what to expect from you and will be delighted to have you entertain them.

Take business cards from everyone, as many people as possible, because after the show you're going to send them a mailing to continue developing the relationships, inviting them to sign up for your newsletter, subscribe to your blog, and furthering the sales talk. You may even call them personally or have your sales staff follow up.

You have seconds to attract someone into your booth and then maybe a minute or two to talk and involve them in meaningful discussion. Over and over just do it, having no idea who you are talking to, big or small buyer. You will get some of both, but you must pitch to as many people as you can. That's the only way to make a show work for you. If you stand in your booth and wait for people to come in because they are attracted to your presentation, you will get little out of your investment.

While you're at the show you have a captive audience with the other exhibitors. Early, before the doors are open, walk the show and talk to as many exhibitors as you can. There will be natural relationships and potential customers. Talk to the other vendors, but be respectful as they are there to sell not to buy. Talk to them, meet them, and create relationships so you can call them after the show and do business.

Work 24 hours per day. This is your opportunity. Make early appointments, late appointments, take different people out to dinner each night. Do not entertain your staff. Ask them to make a similar commitment and take similar action with potential customers, hooking them in, meeting them, talking to them, and going out with some. Take your salespeople to the show. It's a selling event and having your sales staff there is an excellent strategy. Give them credit for and commissions on sales made at the show; incentives always work.

The best advice I can give is to talk to as many people as you can, do not wait for them to talk to you, be aggressive as anyone may become a customer, and you never know who it will be. Put yourself in front of as many people as you can. It's all up to you: your excitement and your sales skills; your product or service, its positioning, unique qualities, pricing.

For the right business, exhibiting at local and regional tradeshows can be one of the most productive, cost-effective marketing strategies. With the proper attitude, a plan, and an understanding of how to work a show, you will always generate sufficient leads for enough new business to make the experience worth the investment.

## **Business Is Out There...Go Get It!**

Yes, we are in a very deep recession, massive employment reduction, rampant foreclosures on homes, and revenues are down in

most every business sector. Yet, we must recognize this is not universal. There are still many with jobs, not in foreclosure and doing well....many. Even those in trouble are still spending some money. The question is, "What are you doing to attract business?"

I see far too many businesses eliminating, cutting back, or wasting money on their nonproductive advertising and marketing campaigns. Some are using the same tactics and material they have for years and are experiencing zero or limited return.

There is business out there, but you must go out and get it, aggressively, actively, focused, with determination, and a recognition that you need new tools, new approaches, new methods to pierce the barriers preventing customers from shopping in your business.

The business landscape has changed dramatically; your marketing techniques must also change. You must be different, interesting, attractive, and current. You must reflect the changing attitudes in the market. The market demands quality and a good deal. They will spend if you deliver the right message. Small stores can now compete effectively with large stores, competitive differences are huge, service is more important than ever, choice and variety rules... but in the end it is a combination of many factors that bring your clients back to you to spend.

Talk to your clients about why they should shop with you. Tell them your competitive advantage. Be aggressive but with a message. Tell a new story. Be different; use humor; be outrageous; use sex appeal if it applies. Telling the same old story is a waste of time and money. The economy has changed, the buyers' attitude and habits are changing, and you, too, must change to meet the challenge.

There is business, there are customers, and you must outdo your competition with a newly thought out campaign to get more of what is available. Waiting for the customer to show up and buy will not work. Use marketing that creates relationships, then sell. No matter what your business may be, it's a war, and you must fight aggressively to win customers. Go get them!

# Generating and Closing Sales

## Relationship Building, the Heart of the Sale

We spend a lot of time worrying, plotting, and developing a sales strategy. We spend a great deal of energy determining price and discount procedures, such as who pays for shipping and what terms we should provide. We focus on describing the merits of our product or service, and why the customer should buy it.

We consider our advertising and marketing schemes, allocating huge amounts of money, time, and effort to devising the best possible marketing plan we can imagine and pay for. Print, radio, trade, consumer advertising, we experiment with it all hoping to find the one avenue that does the job best of all.

Sometimes we hire brokers, sales representatives, or dedicated sales employees. We go to and display at tradeshow, we send direct mailings and postcards, hand out fliers, use telemarketing, create expensive seductive and powerful Web sites. We create expensive brochures and design powerful presentations. We service our top accounts, which we know represent 80 percent of our revenue. We spend a lot of time waiting for the big order to come over the fax machine.

All these exercises and efforts are appropriate and result in some degree of success. But these are all tools of the trade, not the real issue. Understanding the sale is what is so critical before we pick the media or the venue or the tools we believe will do the job the best.

## Creating Relationships

So what is the bottom line, the heart of the sale, the heart of the sales strategy? A question infrequently asked and seldom answered correctly. Is it price? Is it value? Is it specifications, terms, options, quality, or a customized look? All are important but not the real heart of the sale.

In a word, the real heartbeat of selling is creating the

relationship between the business and the potential customer. Once you make that connection, the sale follows. It's that simple, or difficult, as it is not always easy to create relationships, but this should be the goal, create the relationship and the sale will follow.

People prefer to do business with those they know and trust. This is the heart of the buying decision. Do they believe the sales message? While the choice of communication tools are also important decisions, what you say with them, how you use them is far more important. You should spend far more time creating the message that helps support the relationship rather than selling the product.

Of course, some product or service information is also important, but who you are and why should we do business with you and not your competition is equally important...creating a relationship. What differentiates you is a key question, not the choice of colors available or delivery times. Create a dynamic relationship and the sales follows, automatically.

So check your yellow page and print ads, Web site, and direct mailing pieces, and ask if they support and create a relationship or merely try to sell your goods or services? It is a very important distinction. It is the difference between failing to connect and a campaign that successfully competes for your share of the market.

Remember, everything, everything you do and present to the potential customer is part of your sales presentation. So create the relationship and you will win far more than your fair share.

## **What Are You Selling?**

I recently learned something very valuable from a good friend of mine. He proposed a solution in a way I have not heard before to an age old question, "What does a salesperson sell?"

The typical answer is service, or himself, the company, the product, but these were not the answer my friend proposed. He leaned back after we all gave up and said in a soft voice, "Trust."

A successful salesperson sells trust. If he is successful creating a trusting relationship, his customer will buy the product or service he represents. Trust is the cement that holds the client to the salesperson: trust that what he says about his product or service is true and that he delivers what he promises.

If problems occur, he will stand behind his commitment. A good salesperson understands that his word is worth far more than any one sale. Once you've established a bond of trust, it must be

cherished, supported, and nurtured. When trust is nurtured, the next sale will always be waiting and competition will never succeed in penetrating this relationship.

## **Sell What They Need, Not What You Think They Want**

The marketplace is changing. Unemployment is soaring and millions cannot afford to spend anything other than on necessities.

We do, however, make daily spending decisions, all of us. There are many who are doing well. There are many with disposable income, but they are making decisions differently than they ever have on the past. Now they question the need for every purchase. Even if they have more than enough money and income to warrant the purchase, they are asking the questions. People are changing their habits and spending less, more carefully, with a specific purpose, and clear intent. Along the way they are demanding a good price.

For the first time in years, more people are saving money, while others are facing record-breaking foreclosures, the loss of their homes and jobs. All of which results in less discretionary spending.

The consumer must believe he is getting a good deal, or the wallet will not come out. Quality is crucial, so products will last; this is vitally important, more so than ever. Precision shopping, consumers will buy exactly what is required, so less is better. That's the new purchasing equation. Figure out how to interpret this trend for your product line or service, for your market. The revenue will follow and sales success will return.

My tree service client, for example, is cutting dangerous limbs overhanging wires, roofs, and walkways. He fertilizes valuable trees to protect the owner's investment. He added cordwood to his revenue projections, because demand always goes up in tough times, and has even invested in machinery to support it. All services are reasonably priced. People are contracting for essential services.

My glass installer client is installing solar panels following the large stimulus package investment in the market. He focuses on what the market needs. Glass installers for solar panels are in demand, more so than for replacement windows, and no demand for new construction.

Traditional print media companies are failing to sell the advertising to support their business model, and the smart ones are offering computerized customized individualized printing, a new

trend made for the times. They are innovating or falling by the wayside as social networking invades the media by providing what the marketplace is demanding not what the magazine marketers think the consumer wants. What they used to want.

We are watching the near collapse of the American auto manufacturing industry because they refused to make and sell what the marketplace needs, thinking they know better.

The business world is changing, the consumer is changing. Frivolousness and excess are out, minimalism is in. Figure out how to deliver this new wave and get in front of your competition. Such radical change provides great rewards for the opportunistic entrepreneur.

## The Power of Personal Presentation

How often do we recite these excuses rather than going to see someone:

- It takes too much time, and I am too busy.
- It is too expensive.
- It is too long of a trip.
- What, fly?
- It is not worth it.
- It is just as good over the phone, by fax, or e-mail.

Excuses, excuses, excuses. In this age of cell phones, e-mail, fax machines, and with our very important and busy schedules, we frequently forget one of the basic principles of doing business successfully...do it in person. Create and support the relationship.

Personal presentation is so much more powerful and successful than any other form of communication, yet we leave the office as seldom as possible and resort to the more convenient forms of communication that are so readily available.

We have forgotten that while the technology age has made communication so much easier, nothing will ever replace the power, effectiveness, and success of a face-to-face conversation, lunch together, a round of golf, or some other personal setting.

Years ago, I had a business relationship with a distributor who represented my line of manufactured goods. The man owed me a

sizable amount of money and agreed to pay me \$20,000 per week for a number of months. Every Wednesday, I would call to make certain the check “was in the mail,” and almost every time he told me, that he couldn’t do it this week, sorry. I told him I would jump on a plane and be there in a few hours, he was in Detroit I was in Massachusetts.

He would always say, “don’t bother there is nothing I can do for you this week.” I went anyway, and each week I came home with a check for \$20,000. This went on until the bill was paid, almost every week. Why? Personal power, my very presence, just going was adequate. I never had to hard collect. Frequently, we would go out for drinks. Sometimes I would stay over and visit with him, but I always left with a check. From then on I never forgot the power of personal face time.

Closing a deal, discussing details, creating relationships, selling, collecting, solving problems, planning whatever the mission is, if it is important, then it is best served with a personal presentation, always.

Recently, I flew to Florida for a one-hour meeting that expanded into lunch and another few hours of getting to know one another. I was inspecting a small business to determine if I wanted to do business with these people. It was possible that they would become a provider of a specific service I deem very important.

They are a credit rehabilitation company, credit repair, it is sometimes called. Since so many of my clients require such service, I felt it necessary to meet, interview, inspect, and get to know the staff, the managers, and yes of course, the owner, as well as discuss details of our working together.

Much was accomplished as we got to know each other over lunch, and discussed a wide variety of experiences, opinions, personal matters, history, business strategies, all sorts of things including the specifics of our deal and business relationship. It was wonderful, and we accomplished much more than we all intended. What a success!

The man was very impressed that I cared enough to come down for a personal discussion taking a day out of my busy schedule. My willingness to invest in our meeting indicated the importance of our possible business relationship. Now we have a personal relationship, which will soon grow, both in the business we do together and the understanding we have of each other. This relationship and the trust that has begun to develop never could have been accomplished over the phone.

Lunch was crucial as we relaxed and got to know each other.

Afterwards, communicating with his staff, showing them respect and letting them get to know us were also added benefits. I believe anything important is worth my effort to do personally as it works far better and most frequently results in the desired conclusion. It helps convert strictly business relationships to personal relationships and the power of personal contact is huge.

Yet, in today's hurry-up world we seem to ignore this basic truth. We are too busy, it's too expensive, it takes too much of our time and everything else is so much more important. I think otherwise.

## **Increase the Perceived Value**

While frequently attempted, lowering the price to increase sales seldom works as planned. In fact, it could lower sales. It certainly lowers profits. It's not always the price that counts the most.

The true underlying principle for closing sales is to deliver value to the potential customer. It has been demonstrated time and again that price alone is not always the determining factor in a customer's buying decision process. Service, quality, guaranty, and perceived value are more important than price every time. These factors all combined can cause a buying customer to purchase something more expensive because of the perceived value and what the whole package offers.

So, offering a training program, in-house repair, or whatever the added benefits may be, will support a customer's decision to purchase a more expensive deal over a less expensive solution available elsewhere but sold with less perceived value. Increasing the perceived value is frequently accomplished by add-ons to the basic product or service, be they nonrelated gifts, additional accessory packages, upgrades at no additional charge, extended guaranty, anything to increase perceived value.

In other situations, such as wholesale sales Business-to-business, it may be the preparation of sales presentation. It can demonstrate increased intrinsic value by identifying cost savings while operating this product or services, which may result in extra longevity, future savings, or greater earning potential of the service or product; all adding value to the customer's perception of the product or service, inspiring the wholesaler to purchase.

Thus, the retail return or gross profit percentage when reselling the product to the business purchaser may be more important than

the purchase price.

The conclusion being that any sales presentation or advertising and marketing program to be as successful as possible in this down economy, or any economy, must include a serious effort to demonstrate and elevate the perception of value to the customer, and if successfully done, will result in far more product or service sold. To increase sales revenue and profitability don't lower the price, increase the perceived value.

## Find a Market Niche

A client's business offers powder coating on metal, also called heat baked painting. There are many who perform the same skills and deliver the same product, so competition is fierce. It is difficult to elevate oneself above the crowds in an environment where everyone is the same, and thus all that remains is price competition. Not good.

Searching for a competitive advantage, we discovered two passions the two owners enjoy and determined that this could be the added opportunity we were looking for.

- One partner owns a parrot and is involved in marketing parrot products on the Internet. We decided to powder coat a parrot cage and offer custom colors to discerning homeowners who want their cage to match their bird, room, or whatever. No competition, high value, and very profitable and a huge potential market. A great market niche. She created a proprietary idea to support the services she offers added value, added revenue, greater profit, an uncluttered market, a special service.
- The other partner rides a motorcycle, so we expanded into custom powder coating bike parts. Others do this as well, but the price point is excellent. Because the cost of shipping is high, service it is geographically sensitive. We can grab our fair share of business by focusing on the local and regional market, which created a significant market opportunity.

I have another client who owns an electrical service company who has developed a specialty in pools. He has a steady stream of valuable business for wiring pool installations. A towing company client specializes in big trucks and has huge equipment capable of handling any size truck, and as a result he gets most of the truck

business in his area, large and small.

Specializing is not always possible in every business situation, however, there are many creative ways to distinguish your business from the rest of the market and then reap the benefits: higher profits and a niche that remains less competitive than your core business may be.

Overnight delivery, short orders, custom work, unusual market segments, a unique product that you control are all ways to create your niche. Then the rest of your typical service or product line goes along for the ride and carries the basic overhead burden while the profit is in your specialty or niche item or unique service area.

I have a tree service client who says he is an expert with large trees, which he is, yet customers with regular size trees figure he must be the best as he does large trees so they hire him for all sizes.

A pizza chain puts out a terrific product, truly superior, yet their signature item is a specially designed box which has built in feet and cooling holes preventing soggy bottoms. The customers love it, ask for it, and come back because of the great product and the great box.

A pipeline company performs much of the work required for a job in their own large building over the winter and then they install the pipe system in the spring and summer. Their system saves money and time, a brilliant move that keeps his customers coming back. He has become a preferred supplier and makes more per job. Could others do this? Of course, but they don't, so it is a huge advantage he enjoys.

A landscaper also has a distributor relationship for a source of high quality pavers for making driveways, so not only does he get an inside price for his own jobs, but he is the main source for this item. Others who bid against him frequently purchase the pavers for a job he was out bid on, so he makes money on the job anyway. A competitive advantage.

The standard business, the core effort, must carry the day, but the specialized niche provides a competitive advantage, a better profit position, and more revenue. It has the power to carry the core business into many areas it might not ordinarily get to. It may mean the difference between success and failure.

Find your niche and then exploit it, not to the exclusion of your core business but in support of it.

## Ask for Referrals

It's not an unfounded criticism; business owners, frequently men, have problems asking for help. I am not certain if this is a male thing (like not asking for directions, which is also asking for help) or a unique characteristic of business owners, whether male or female. But I know one thing for certain, business owners do not ask for help until an issue becomes a huge problem, totally out of control and so beyond the business owner's ability to handle that than they finally break down and yes, ask for...help! They mutter as quietly as possible as if such a request is an admission of weakness or ineptness or even shameful.

This behavior is also the sidekick of doing it alone, another business owner's bad habit, whether it is a fear of rejection, appearing weak or needy, or the ego that prevents us from asking for help. The conclusion is: we do not do it, and we should.

We are probably more concerned with what others think than achieving the objective...how silly. We must be adequately emotionally self-sufficient so that the goal of getting additional work referrals is far more important than what the person you are asking may think. Besides the likelihood is he will think none the worse and perhaps better of you.

So unfortunately, the request for referrals for new business falls into the trap of not ever asking for help, and what a self-defeating trap that is. Think about it, you have a satisfied customer for whom you provided acceptable goods or services, you were paid, and everyone left the experience happy and better for it. Why not ask that person for a referral or two? They will be delighted as they had a uniquely positive experience, and have therefore developed a trust relationship. And with that trust and because your client appreciates the relationship, he would be delighted to make a referral and help advance your cause. Also the customer would be delighted to share the benefits of your services with a friend whom he knows would also benefit from the goods or services you provide.

Yet we seldom ask our satisfied customers for such referrals, and thus the chain stops. How unfortunate.

I suggest this because industries that make a living on referrals, that focus heavily in creating a referral business chain, and that enjoy significant success because of this, are proof enough that this works. Real estate agents, insurance brokers, car salespeople, are always asking for referrals. Why? Because it works.

Referrals produce more new business at the lowest possible cost. Over time they create an ever expanding client base as each customer gives referrals which result in more business and more referrals. The geometric progression results in an ever expanding new business chain all feeding off your original successful delivery of quality goods and services.

This is a dream come true, and yet we seldom access this potential well of wealth and success because we fail to utter the most valuable words: “Can you give me a few referrals?”

Most customers will gladly offer a helping hand when asked. I believe people want to help one another, but I also know they must be asked. No one is a mind reader; no one will invade personal areas until invited, even if they are satisfied customers. But if asked, whole new worlds open up.

Of course, asking for help from others extends to a myriad of opportunities to advance your own business program. For the moment let's simply concentrate on a meaningful request for help that benefits all involved and furthers your mission most dramatically.

Ask for referrals, have a specific system that all employees follow, and focus on developing referrals as a primary marketing effort. It will bring you much business in return.

## **The Tipping Point Through Referrals**

The tipping point, a term coined by others, represents a very important concept in the context of a business life cycle. It is the point in a business's life when repeat business and referrals create adequate cashflow, revenue, and profits to propel the business forward on its own merit. This key indicator is important for many reasons.

For example, it may mean you need not invest dollars heavily in traditional advertising as you have created the ultimate guerrilla marketing plan: word of mouth marketing and referrals. This is the most valuable form of promotion possible and cannot be purchased, it must be earned. This and repeat business from established customers.

Once you have accomplished this benchmark, you need to cultivate it, honor it, support it and preserve it as it, too, can erode to your competition if you are not constantly working your referral system.

In fact, establishing a referral based business growth plan,

while sometimes a happy accident, can and should become part of a purposeful marketing program, using every aspect of direct communication and indirect communication available to self-promote and support repeat business and referrals. It requires a plan of attack to accomplish and should be a first priority.

Of course, the ultimate referral is one made directly to a friend or neighbor that results in additional business as opposed to a referral given to you by an existing client which you then must pursue. Both are valuable; but if you are doing a good job delivering your product or service so your clients feel good about the relationship and passes the word along, you have hit the mother lode and success is knocking at your door. But you must cultivate and nurture this response to achieve it.

Referrals do not happen by accident, and while it is crucial to have a great product or service, you must promote repeat business, word of mouth recommendations, and referrals as seriously as you might promote your product or service in traditional advertising to new customers.

Newsletters, Web 2.0, social networking, video, blogging, Facebook, insider special deals, surveys, rewards for referrals and recommendations, and on the list goes. As important as all these are, delivering unprecedented super service counts for a huge amount of successful word of mouth marketing, all adding to your reaching the tipping point, when your market propels you to financial success.

It costs much less than creating new customers to reach your sales and financial goals. It deflects competition very successfully and promotes enormous long-term success. Make this objective one of your goals. Create a referral system and support it with a marketing plan.

## **Testimonials Sell**

Testimonials may be one of the most important and powerful tools available in closing a sale. A testimonial is the positive recommendation provided by someone who has satisfactorily concluded a working relationship with the seller of services or product and describes their experience and how they feel about the experience. This is what people want to hear. How did it work for others? People love to hear a success story.

So help your new prospective clients make their decision by sharing the stories from your satisfied clients with them. Let your

satisfied clients tell their story in a testimonial format. This is a glorified pumped up, expanded reference because a testimonial is the customer's story, not just a recommendation. The one line "wonderful experience...would recommend to anyone...excellent service," are all good, but we can do better, much better. We can tell the story so the new prospective customer lives the experience and falls into the successful relationship, and envisions his own successful story. That's your objective.

Here are the three steps to accomplish this:

1. Ask an existing satisfied and happy client if he would be willing to participate in a testimonial. Tell them it is not necessary to include his name so privacy will be protected. Remember this is not a referral, but a written or spoken testimonial, the customer does not have to be involved in ongoing discussions with potential clients. His job is merely to tell a story with a happy ending. Assure the client it will be easy, tell him we will do all the work, even writing it down, as most people are willing to tell but not write the story. Write it for them, this is supporting their effort.
2. Include a picture. This is easy today with digital cameras. Capture a picture of the client telling his story. If possible surrounded by the product or service you provide, not critical but if possible it adds a nice touch. If your business provides swimming pool services, take the picture around a pool. It adds credibility and sets the scene in the new customers mind for envisioning a successful completion. "I can be sitting next to my pool as this person is," the prospect will think. You are already half way home to a sale, as the prospect begins to see the vision.
3. Here is the key to success. Someone in your organization has an established relationship who can briefly interview the customer. Use the interview to remind the person of all the positive points of the experience and the relationship, all the points you want to expand upon that are deemed important by the marketplace such as quality, timeliness, friendliness, ease of doing business, great design, excellent price, and value, whatever is important. Then help them tell the story.

4. Then *your* employee writes the testimonial right on the spot, shows the story to the customer and asks, “Is this OK?”

Ninety-nine out of a hundred times, with minor insignificant adjustment, the customer says, “Yes, it’s perfect.” You have the testimonial you want.

5. People are afraid to write, do not necessarily have the skills, and may not understand what you want, so make it easy and do it for them. Never ask a client to write anything themselves.
6. Then have them sign it, using only their first name, so it has more authenticity.
7. Put this on your Web site, in your presentation book, and enjoy the benefits of a signed, illustrated story written by your employee with the support of your client, that’s a testimonial you can use.

This works, creating trust and confidence easily and effectively. This is how to create a positive sales conclusion using testimonials.

## **Free Samples..... Be Innovative**

We all see it in many places. Supermarkets do it frequently, and it works. Vendors offer tastes in anticipation of customers liking them buying the product and creating a new customer. Think about it. How much does it cost to send a free sample to a potential customer, buyer, CEO, other key decision influencer? Not much and with a huge potential return.

Store owners should explore creating a cost sharing relationship with its vendors. You can also do it yourself. Customers love to shop where they experience free samples. It draws them to the store and sales increase not just for the free sample products but for store’s entire line. I heard a friend tell his wife, “We should go to Costco, they have tons of free samples.” The wife said, “Ok, let’s go shop there.” This contributed to the customer experience and drew the traffic.

This concept can apply to services, wholesale distributors, and in any level of sales organizations. It makes sense to let the product or service speak for itself. Let the consumer test something they would not ordinarily try. How valuable is a new customer? Sampling is not that expensive and pinpoints the potential consumer in a

buying atmosphere. It will increase product awareness and sales. It is an advertising and marketing program with an immediate direct revenue impact. Especially in this tough consumer market where purchases are debated...samples will win the day.

Depending upon the type of product you sell, offering free goods to the sales staff of your distribution system is another way to promote your products. Recently, I went shopping to buy winter hiking boots, and was not certain what to buy. The salesperson told me he personally used a particular brand and loved it. That was all the recommendation I needed; I bought that boot. When I questioned him further, he informed me that the company gave them to the salespeople for free, but he loves the product and freely recommends it. It made the sale; another great use of free sampling.

Let your products and services speak for themselves. Be innovative, it works.

## **Sometimes the Best Choice Is One**

Many years ago, I went to a highly regarded graphic designer to have a corporate logo designed for a business I was starting. We talked about my ideas, and I concluded by explaining to her that I was not a designer and had little artistic flair, so I wanted her to use her creative skills and design something for me that fits the business purpose and looks good. That was why I was hiring her, not just to execute the project but to design the concept.

She did not get it. When she finished, she showed me over twenty different variations. Frankly, all of them were good. I was totally confused and at a loss as I could not determine which was best. They all looked good. So I told her, "I'll take them home and think about it."

I then hired another less renowned designer, and gave the same instructions. When she returned, she showed me one design. It was terrific, perfect, and we used it. I was very happy; she had given me what I asked for.

This exercise taught me early a very important lesson, which I carry with me to this day and share with many when the time is appropriate. I call it the "choice of one."

In short, when asked to provide a response of any kind, resist the temptation to provide unlimited options. Options are simply a way of saying in many instances that you are not sure of the best answer. Choices may be appropriate in specific situations, but over

all people want, respect, and appreciate the right answer when asked. Giving choices shifts the responsibility for the right decision back to the person who asked.

If you are an expert, a source, or represent authority, or are selling something, give the answer, the opinion, the conclusion, whatever is requested, not a choice of many options or many answers. Be the expert you are perceived to be.

Even at a restaurant with a full menu describing a dozen choices, I frequently ask the waitress what's best. I just as frequently go along with the recommendation.

Yesterday, when working with a client who was providing a proposed program for his client, he expressed annoyance that they were not getting back to him. I asked him how many options he provided, he said, "Three."

I remarked, "That's two too many."

He looked at me quizzically and I said, "They are now bogged down in deciding which one they like best. This will take awhile and may prevent a final decision altogether. The choices create uncertainty and do not support a secure and comfortable, easy-to-make decision. You lose the momentum and focus and waste a lot of time on the wrong issue."

"Give them one program." I suggested. They can reject it, make adjustments and suggestions, then you can redo and close the deal. It's the "choice of one."

I have applied this concept repeatedly throughout my business career, always limiting the choice to my best effort, my best suggestion, my desired conclusion, and then worked back if necessary making adjustments to satisfy the client's needs.

Many mistakenly believe that by providing numerous options and choices, you are enhancing the likelihood for success, when in reality I believe you are diminishing the potential for success.

Try "the choice of one." It works.

## **How to Beat a Competitor's Competitive Advantage**

I was talking to a very wise and successful friend, who had returned from a European sales support trip for his company, an IT business with some proprietary software. He operated in a very competitive environment competing with a few much larger companies that are very well supported in Europe. They successfully

outsell his company with excellent products perceived as better in many ways. His approach is exceptional and clearly successful. Here is how he tackles this sales dilemma.

He understands his competitors' strengths and weaknesses extremely well, as well as he knows his own products.

He acknowledges that his competitors have successful products, that they do well in accomplishing stated goals, and then freely states his opinion regarding the strengths of his competitors to his clients. He acknowledges they do a better job in some important situations. As he explains it, his honesty and accuracy create credibility because it is what the prospective client thinks anyway. It doesn't make sense, therefore, to bash the competition. That will only take away from his ability to sell.

After acknowledging his competitors' advantages, he frequently out sells them by further understanding what his program does better than his competitors. He wins when the advantages of his product are what the client needs to solve a particular problem. He out sells them by selling what his program does better while recognizing and acknowledging what his competitors strengths and weaknesses are. While it makes sense, I rarely see the strategy implemented.

So many salespeople simply believe in their products or services and right or wrong, sell blindly with the belief that their product is the best and everything else is inferior, whether it is true or not. Successful salespeople are far more sophisticated than that, and customers are also far more knowledgeable. Selling without knowing your competition will not work. Selling intelligently is a requirement. Understanding your competitions strengths and weaknesses is a fundamental requirement for success in today's market, and acknowledging what they do well, and yes, what your product does better is the key to successfully selling against your competition.

Reconsider your approach and see if this strategy can benefit you. It is very powerful.

## **No Means Yes...Just Not Now**

In business, I believe "no" means "yes," just not now. That's the attitude a salesperson must maintain to be successful. Of course, this assumes you're talking to a bona fide potential customer who does, should, or could use your product or service. As long as the potential client is talking to you, "no" is an acceptable answer, not to

be considered a rejection, just a postponement. The customer is not ready yet.

The danger is when the talk stops, and there is no further opportunity to penetrate and close. When you cannot talk to your potential client because he is not taking your calls, you may have a real “no.”

Although, I still say, “It’s only a harder postponement.” It will require a strategic reconsideration of how to approach him next, not a sign for a retreat or abandonment.

If you are talking to enough potential clients, some will close immediately, some soon but not today, some later, and some a lot later. Your sales and marketing plans must include working the line, knowing you have clients in development, tomorrow’s sales, next month’s sales, next year’s sales, you are developing, now. All saying “no,” but really saying, “Not now, but let’s keep talking. I am getting closer to a yes.” That is what they are saying, if only you understand.

There is the low hanging fruit, harvesting those prospects whom you merely have to ask once or twice to receive a “yes.” This will not happen all the time. Many excellent qualified, bona fide potential clients need a longer time to consider and accept. So how many no’s must you receive before it turns to a yes?

Frankly, my answer is unlimited no’s, as many as it takes, never give up. It may not require a weekly call or even a monthly call, but I would have a sales and marketing program that manages my communication requirements. For every person I speak with that says no, a carefully considered return call, letter, email, newsletter, postcard, whatever you can imagine, will be scheduled and implemented, designed to keep the prospect in play and working towards an eventual yes.

Why give up on anyone, if qualified, especially if they are not throwing you out the door or hanging up on you? If you are convinced you have a product or service that the potential customer could and should use, the answer “no” is just a postponed “yes.”

So how many times does it take? The consensus on this issue suggests that on the average it requires eight rejections before an acceptance or a yes is received. That’s a lot of rejection, but how sweet the acceptance is when it finally arrives.

Perhaps the strategy requires you to figure out how to deliver at least eight approaches, so you can get the eight rejections (or ten or twelve if it takes more) before the yes occurs.

I would, therefore, never consider another postcard, email, call,

visit, or other method of contact a waste of time until you have provided at least a dozen passes, and received a significant number of rejections. You must ask for the sale, the commitment, and either get a rejection, more work required, or a yes and a sale is made.

Deliver at least a dozen communications to get through the no's and reach yes as soon as possible. Keep score, and if you stay in the game and play all nine innings, making eight to twelve sales pitches, you'll receive a dozen no's but eventually the yes.

Maybe the sale requires creating a relationship, demonstrating professional tenacity, service, commitment, empathy, or follow through. Maybe it's a no to you and not your product or service and thus you need the time to convince the potential client that you are worthy of his business.

If sales are all about creating a relationship, it cannot be done in one or two communications. It takes many, and maybe they should not all be sales calls but should be relationship building calls without a word said about product or services. Maybe your conversation is about the industry, or whatever subject you consider that the potential client would be interested in, creating a relationship.

Remember, the mantra is: no means yes, just not now. You require at least eight rejections before you will receive an acceptance, so get on with the job. You have a ways to go, and giving up before you have made at least eight passes is leaving potential sales on the table, not finishing the job, wasting an investment, and the time already spent because you failed to keep the ball in play for long enough to win.

Think about it, every salesperson has experienced success after a significant string of no's. Make it part of your sales and marketing plan. Since companies make such a large investment originating and presenting to a new prospect, it seems pennywise and pound foolish to give up on the third or fourth effort. How much more does the additional contact cost, not much.

Any good sales database management program tracks and feeds you your next contact effort and makes it easier to implement effectively. Review your sales program and build in eight to twelve communications. Do not give up until the job is done and the sale is closed.

## Call Volume for Increasing Sales

There are great salespeople. Anyone who has worked in a sales force knows what I am talking about, the standout, the one who has the gift and closes sales almost at will, the superstar. We have all seen this person in action, and it's a natural skill, a God-given gift.

No, not necessarily so. Any average salesperson can increase their sales dramatically by using the secret of sales success.

It's all in the number of calls made. Double your sales calls, and sales volume will go up manyfold. It's that simple. This may seem obvious but in my experience it's a well kept secret. When I say double the number of calls, I mean each salesperson must double their own call numbers by increasing their productivity.

The more calls the more sales. Believe me it sounds obvious, but so few do it, allowing their sales force to be as inefficient as humanly possible. Track how many new calls are made per day, and then come back and tell me that it is impossible to improve the call sheet.

Here is one reason. Sales calls have a built in potential percentage of success. However, let's say, for example, a salesperson must make 100 calls to get 10 appointments that will yield 2 successful sales. That can be interpreted to mean a 2 percent success ratio. However if the salesperson made only 50 calls does that necessarily mean 5 appointments and one close? No, as it is entirely possible that the 50 calls would yield zero appointments and zero sales. Why? Because the minimum threshold of calls for sales to occur was not reached, the percentage of success does not work. Arithmetically, you need the volume for the ratio to work.

If making ten calls per day and failed for weeks to produce anything, you might draw a wrong conclusion suggesting that the entire program is built on a bad premise, it did not work. Conversely, the person who made 100 calls daily and received 10 appointments and made 2 closes would conclude it's a runaway success. The same program produces a different call level, so an incomplete effort may result in bad information and may yield an incorrect conclusion.

If your belief is you're reaching the right market with the right product or service and at the right price, but are not getting the results you expect or believe are available, making more calls may be exactly what is required to cross the threshold and reach the results you want.

So it's not just that more calls make more sales although that is

usually true under most circumstances, it's also that you may not be triggering the threshold level so it's possible that no daily or weekly effort will be successful until you do. It's not just the number of calls, its reaching the threshold that is required to reach a result.

How do you know what the threshold may be? You don't, so double the effort and see what happens. You will find out when the results roll in. Initial failure may not be a real indicator of the potential results.

Do this, and for no additional investment, you will see sales increase dramatically. It's possible the super salesperson is making enough calls to trigger a better response than the average salesperson who calls less frequently.

Try this it may be the answer to your growth. Increased sales are waiting, do this simple exercise. Double the sales calls, find the threshold, increase your potential success.

## **Going Up Against Major Competitors**

We all understand that we cannot compete with the big box stores or major service competitors on price. Their buying power gives them a competitive advantage. So, stop trying. Stop giving away your profit trying to compete with price, it's a losing battle.

Take advantage of the competitive advantage small retail stores and local service providers have that the big box stores and major service businesses cannot compete with you on, customer service, more specifically, customer relations.

Most small business owners or their store managers or salespeople know who their best customers are. If you're doing your job, you know who all your best customers are, by first name for many. You also know a little about their life styles family and habits, at least for your best customers. Since your best customers already have a relationship with the store and the staff and have already acknowledged that they appreciate your product mix, the objective is to get as much of their spending dollars as possible.

I would specifically focus on marketing to your existing client base, spending even more special attention on your best customers. How about a sale just for customers, a private sale for the best, maybe off hours, maybe catered, maybe crazy, fun, interesting, personal and all about the relationship, not the price. It will attract your best customers and then let your sales staff go to work on them and capture their spending budget for your store, without giving it

away.

This is not the time to compete for new customers, as they will be attracted to the big box stores as they have not developed a relationship with you or your store, so they have no incentive to shop there. Clearly, general advertising will bring some new customers in, but in view of the likely reduced spending because of the economic downturn, the high investment in ad dollars may be best saved and a smaller marketing budget directed at your most likely successes, your existing customers. You can also develop a program to induce existing customers to bring a friend along.

This strategy is more effective, costs less, yet yields more. No point in advertising massive discounts to all comers because in the end you are giving away the additional profit to your existing customers who would have shopped with you anyway. You cannot make it up with new business volume while trying to compete with the big boxes.... be smarter. Focus on existing clients, have private sales that are moderate and keep them spending with personalized service. This works.

You will gross less but profit more and that's a good thing. Be smart, a lot is at stake, change your approach, the times have changed. This strategy can apply to service business as well.

A great two-for-the-price-of -one suit sale at very large men's clothing store got me to take my son there to improve his wardrobe at a reasonable price. Was I ever disappointed. Despite the wonderful ad, it was a come on deal, just a few suits were included in the two-for-one sale, and everything else was regular price. I was quite annoyed as the suits they were offering were unacceptable, and I felt it was a bait and switch deal. It was an annoying experience. I will not go back again; they have lost a potential customer. How silly. Also, there wasn't a quality piece of clothing in the entire store. It appeared that everything had been made for the discount market; everything was made in China.

If this is the competition, I would love to own a men's clothing store as I would beat them into submission.

Furthermore, as a small retailer, you can beat the big box stores by specializing and expanding your niche being the best and the most, including the obscure.

## Selling to the Major Chains and Distributors

Attempting to do business with the major distributors, chains, and similar businesses is frequently fatal, most always painful and costly, and seldom provides the intended additional profits anticipated.

In short, before selling to the major distributors or direct to the major chains in most retail or wholesale markets, be aware of the following issues:

- Promising to pay in net 45 days is an illusion resulting in net 60 to 90 days, or whenever, becomes the expected. Can you imagine the audacity, you financing their growth with net 60- to 90-day terms? Amazing! Try supporting the increased overhead, cost of goods, and so on, while waiting for the big check to arrive.
- Of course everything is a guaranteed sale whether you agree to it or not. When they feel justified, they will simply deduct the remaining inventory from the past due invoice, and send back what didn't sell. They also deduct a handling fee, shipping, and other add-ons with the remaining payable still being postponed for payment...soon.
- Did I mention the bone crushing discount they will demand, as they must enjoy their enormous mark-ups at your cost?
- Samples for the various buyers, all the stores, many. Sometimes, if it's a distributor, a significant load of free merchandise, say three to five pallets, to disburse as samples to buyers at your cost of course. Not a bad idea but costly. They sell it anyways so there is no benefit to you, just increased revenue for them and increased costs to you.
- The distributors and chains will both want additional opening order incentives, such as one free with three, or whatever they can beat out of you to sweeten the pot for them on the first order and decrease your profit further.
- They also have the required contributions demanded for printing your catalogs including your product, and the more you are willing to pay the larger your display will

be, but you pay for it...less margin for you more for the distributor and/chain.

- The dreaded slotting fees, which began in the food industry, are spreading across every industry. Why not, it's a grab for all the remaining profit that may have been allowed you. More realistically, you are now investing only in your customer's profit. Yours is long gone. You are now losing money, and the customer is getting it all.
- "But this is how it works," says the broker (an additional 5 percent). This is what you have to do to sell into this chain or distributor, and once you do, the others will follow, and we will make better deals. The individual chain buyers will all repeat the same song.
- It even gets worse, should you miss a delivery date, they either threaten cancellation or fine you, further increasing your investment into this transaction.
- Then there is the automatic deduction for waste and spoilage irrespective of whether or not there was any. Now don't forget you are building inventory with expensive payroll and cost of goods, you must absorb (spend your own money for) this additional investment for approximately 90 to 120 days from the time you begin to build inventory, to the moment you get your invoice paid. Since there may not be any profit coming, you may simply get a credit notice telling you how much you owe them!

Wow, can you imagine doing business under such conditions? So what is the conclusion, what is the learning, what should we do when contemplating doing business with the big dogs?

Unfortunately, the predator habits of chains and distributors must be evaluated and changed to meet your needs or refuse to do business, your terms or no deal.

Do not fall into any traps that promise you future business that will be profitable despite the lack of profit on this order. It's ridiculous, either do business profitably and safely or say, "No." Better you should do more work with smaller businesses than take the extreme risk and smaller return from larger less profitable big business stores.

Another common theme, I have witnessed too many times,

occurs in the construction trade. The small subcontractor reaches for the moon and bids and wins a large job, and then the general contractor fails to pay the subs until the sub eventually goes broke and never has to be paid at all. This usually happens near the end of the job, so most of the work has been completed, and the sub hangs on doing everything he can to remain alive waiting for the check, which never comes.

What also happens is when the sub finally says they will not continue without payment, the general contractor hires a replacement to complete the job. Then the contractor charges the subs payable for the replacement work and there goes all the cash owed. Go fight it, they claim you failed to show up, so they had no choice or they complain about silly issues like inadequate work or untimely completion, anything to not pay. Meanwhile, the subcontractor has paid huge payrolls, purchased materials, and rented many large expensive machines for the job, investing in the contract and waiting for the check, eventually failing to pay his 941 taxes or running out of cash.

I have seen this too many times to count. Stay smaller, grow profitable and enjoy life. Big suppliers should handle large jobs, small business should stay in their own arena. You can reach your gross revenue and profitability goals in the market you are best suited for. Growth and development is fine, but accepting a large contract, requires huge stamina and lots of cash and lawyers in the construction business. It may be profitable if you have the cash.

I have seen too many good small businesses go bust chasing the big dogs and unfortunately catching them, worst thing that ever happened to most of them. It's not a good bet. Grow within your means.

## **The Problem with Using Brokers**

I am certain there are some good brokers. I have heard many legendary stories about some major brokers that do a phenomenal job, selling Coke, or M&M's maybe Budweiser, or other very well supported nationally advertised consumer lines.

I have also heard stories of excellent brokers representing dry goods lines, sporting goods, clothing as well, so I am sure they exist somewhere. I have never found one, nor have I done business with one that ever delivered the orders to me or my clients that ever added up to more than a hill of beans.

I worked have with broker organizations, the national brokerage firms, over a few dozen times maybe more. If you count each broker relationship I have tried to squeeze an order out of, hundreds.

I will tell you one universal truth in my experience, brokers do not work well for pioneering a new product or a product without national advertising, and without enormous support such as huge discounts, guaranteed sales, catalogs, sell sheets, and specials, push money (PM), free goods, all given in addition to the commission to the broker presumably required to stimulate the successful introduction of your item, and to help your brokers to do their job...hmmm.

Maybe we are getting a clue here as to what is wrong, and in the end it all does not work anyway. A broker can do a fair job taking orders. If your product is a runaway winner with huge brand acceptance and supported by a major ad program and all the other goodies mentioned, then yes, a national broker firm may be just the thing for you. But the likelihood is you are not in that position.

If you are a small regional manufacturer or importer, attempting to develop a more significant national distribution and are contemplating or currently using a broker network, and I will make a bet you are unsatisfied with the results. This plan nearly always fails. Why?

- Brokers are not designed to place new items in the marketplace. There is way too much risk, and it will not happen. They are order takers not pioneers. The retail buyer has no desire to take risk, so they sell only with the winners...taking orders. It does not pay for them to experiment as there is far less money in it for them, far too much risk as some will fail, and their loyalty is to their buyers not to the manufacturers.
- Brokers tend to represent a number of lines and can only expect so much commitment from one buyer at a chain.
- Brokers push whatever the buyer wants or is asking for and dares not take his precious time and limited influence to push something new, different, and without the bells and whistles like free goods, obscene discount, and other bone crushing requirements meant to weed out anyone other than the large successful items that everyone wants.
- Thus, while your item may be innovative, and unique, if

there is not an existing demand, brokers are not the way to go.

- If you cannot afford all the whistle and bells, free goods, long terms, sell sheets huge opening discounts, extra push money for the brokers, an opening deal that will destroy any hopes of profit, ad money, guaranteed sale, and so forth, do not even waste a moment of your time on a broker, it will not be a successful relationship.
- If you are going to a broker that specializes in either the industry or product line and you hope to capture your share of market on his successful coattails, it is unlikely as the broker is more afraid of failure than the buyer, who is protected by a guaranteed sale deal.

If you do use brokers and are lucky enough to capture one with great contacts and a successful sales background, who is willing to pioneer your item, I have one and only one suggestion. It may be the only strategy that will work, it goes as follows.

Ask your broker to arrange for a two-day field trip with you (the manufacturer) and the buyers, his clients. Tell him you would like him to take you around for a few days and make appointments with his best accounts. You will come bearing gifts of a better deal and will help him make the sales, as only an owner can do. This works, as the dynamic is set up.

The buyer understands he must behave appropriately as the buyer typically has a relationship with the broker, and the buyer understands the dynamics of a manufacturer coming out with a broker to meet and sell the buyers.

He usually feels obliged to cooperate in such a setting and should give an order as the broker will look bad if he does not create a sale for the manufacturer. Thus, the buyer is inclined to buy. You will do all the selling as the broker does not really sell and thus the job gets done, with everyone smiling except the manufacturer who had to give away the ship to get the sale.

But at least a sale was made and now maybe the broker can use his extreme influence by telling the next buyer that the last chain he visited bought quite a bit. That's about as good as it gets!

In short, the broker picked you up at the airport, took you to your hotel room, ate lunch with you on your tab as you explained the strategy and he explained who he has lined up for you to see, and he then takes you to each buyer he could in the two days you're there.

After that trip, you will not see any additional sales as the broker is now waiting to see what happens. If the product sells he may sell into another chain, if the product does not fly off the shelves, he will not promote it to another buyer no matter what. So now you know that a broker's highest value is in making you appointments and driving you around and for that he gets 5 percent.

Oh yes, he will want commission for all existing customer sales within his territory. That's to be expected. He will tell you that he will do a better job and will get much more out of them than you will. It demonstrates commitment and helps override the expenses of creating new sales which are huge, he will tell you.

Have I ever had a good broker relationship? Sadly, no. Has anyone? Maybe, probably, definitely, yes, for the well-established and well-supported product line. Is it all worth the effort and cost? I do not believe it is.

It's a great concept but seldom works in pioneering situations. My answer is, "Do it yourself." It will take longer but the results will be more effective and profitable under your control.

# Run a More Profitable Business

## Consider Charging the Highest Price

Given the downturn of the economy, the massive unemployment, it seems everyone competes by reducing prices, giving back profit to the customer, be it wholesale or consumer. Therefore, the competition focuses on just that: discounts, sales, special deals always lowering prices. This does not mean you have to start out or even end up at a rock bottom price to compete. There is also the top of the feeding chain, the high-end market, where customers are still excited about discounts and special deals, but are satisfied with higher pricing because they demand the best, and want the extra service.

Expensive cars, clothes, jewelry, homes, every product line has a high end. Every service has the best providers, be it lawyers, accountants, or architects, and even some doctors who are very high priced. They have earned it through their own success or because they provide the best service and are very much in demand.

There is a significant marketplace that wants the top end and is willing to pay for it. While still desiring a discount or a good price, these customers understand that top-end work gets top-end pricing. While the top end of the market may be smaller than the bottom with fewer potential customers, there is typically competition but not as much. The competition is less, the profit is far greater.

Perhaps the best business strategy may be to find and fill niche markets that are not yet over exploited at the top end. For example, there are high-end lawn care firms, cutting the same grass with the same tools as the low end providers but somehow they are getting more for their effort. Why? Typically they give more or better services or products by doing something that represents higher value added. Maybe they offer a guaranty or follow-up services, which creates the perception and the reality that they are best the industry has to offer in order to command the highest price possible.

In the end, in order to be successful at the top end of the price chart, to build a reputation and a successful business, a business has to deliver top-end service and top-end results. It is not just about pricing high; it's about pricing high and delivering high, satisfying expectations. You can achieve this many different ways, depending upon the nature of your service or business, but customers who are willing to pay the highest price expect and deserve the best product or service. After all, that's what they are paying for.

A highly profitable niche, that's where I want my business operating. Make certain you're delivering the best possible product or service and you can succeed. Your customers will still want a discount or a special deal on occasion ...but the higher profits are worth it. Perceived value, that is the concept. Pay more but get more.

## **Service, Service, Service...and More Service**

It is absolutely the way to beat price competition, the big box stores.

It is absolutely the best way to beat local small business competition.

It is the way to boost profits, as great service allows for slightly higher pricing. The best service may allow for significantly higher pricing especially in certain industries and product lines where service is more important than the product.

Not everyone is more interested or swayed by great service. Those who will buy based on price alone and look for whatever they can get free will switch loyalty for a dime. These are not the type of customers or clients you want to do business with or build your business on.

You must identify the customer profile you want to do business with and then create a service program that keeps them coming back year after year. That's how to succeed in this down economy. That's how to avoid discounting and create word of mouth promotion, long-term loyalty and growth. It is how to compete successfully and it is all about creating relationships, by serving your clients' needs.

There are many, many ways of accomplishing this. Free extended guaranties....really how much does it cost to replace or repair a few widgets each month or week, in exchange for a long-term profitable relationship?

Here are just some of the services you can use to attract customers and encourage their loyalty:

1. Free installation
2. Liberal “no ask” return policy
3. Value-added design consulting services
4. Free assembly
5. Seminars, courses, how to advice, on your product or service
6. Telephone support
7. Refill reminders
8. Upgrade service
9. Low or no interest financing
10. Free delivery, then pick-up and removal of the old product
11. Coffee or other amenities while waiting.
12. Home consultations
13. Gift services
14. Try before you buy service
15. Newsletters, email communications
16. Communities and forums through Web 2.0: Web site, blog, Social networking, Twitter, Facebook, YouTube, etc.
17. Knowledgeable salespeople
18. Information online; printed format
19. Foreign language services to bridge barriers
20. Doing whatever your competition will not do to provide a better option

The list can go on and on, but you get the point. If successfully delivered, the cost of these kinds of services are easily absorbed by greater client loyalty, higher profits, and important word of mouth advertising, recommendation, and growth as a direct result.

Review your service commitment and double up, give it a season or two and watch the success and momentum build.

## Challenging Traditional Discount Strategies

It appears to me that quantity discounting has nothing to do with the cost savings experienced or the quantity purchased; it's merely a pricing strategy that the manufacturer or distributor congers up and offers...and then violates regularly, in response to market demands.

It's an understandable power move on the part of the large chains and distributors that manufacturers and prime distributors cannot resist. Simply stated, chains and smaller distributors demand the lowest price possible in consideration of the potential for larger orders, not the promise but the potential. What really happens is they test the product in a few dozen stores, having purchased at the truck load price, making a sizable profit. If it goes well, they repeat the order slowly, probably never reaching full distribution potential. They will not give you widespread forced distribution.

For reasons that remain mystical, or at least difficult to understand, distributors take orders and do not pioneer new items with forced distribution...ever, despite success at the test market level. They only want to stock traditional, long-term successful, well-supported, guaranteed bestsellers.

The chains do the same thing. Buyers hedge and order minimal amounts of a new innovative item, always afraid of getting stuck with inventory or slow moving goods. They would rather miss a winner than get stuck with inventory.

So the demand for the lowest price is really an empty demand, as the buyers will order as little as they can to replace the product where it moves based only on what the market demands, never buying for greater distribution.

The real power is in the product itself, as it alone determines retail velocity while the buyers do everything they can to limit their exposure and risk. As they are certain the new product will either bust or peak and slow down quickly, they reduce their risk from the first purchase on.

So why should manufacturers and large distributors demand and get the lowest price possible price for very small orders as they test the market when there is no upside guarantee or promise? Good question, and I have no reason, whatsoever, other than the likelihood that they will not place the order unless the lowest price is offered, irrespective of order quantity, and without real promise of support and greater distribution.

The point is a manufacturer or distributor must have a selling and pricing strategy to support their effort, or they will be forced to sell at the lowest possible price. Once you violate your own discount schedule, you may as well always offer the lowest price for everyone and accept that as your benchmark, as that is what the market will require.

Alternatively, if your product is good and sells off the shelf, grow slowly and prove its value with demand, pull from the marketplace which will provoke many of the chains to buy at your appropriate pricing and quantity discount strategy and in volume. As now they see a winner, they do not want to be left behind. You need to be strong enough to say, "No," in the early stages and develop sales where you get distribution support and sell at the right price.

Since the chains and distributors want you to pay for shipping, accept long payment terms, and accept returns for damaged goods, whether there are any damages or not, and on it goes, you had best hold your selling price to your schedule or all the profits will be eroded before you get your check.

You are entitled to a larger price for smaller quantities and the larger buyers are entitled to a discount based on cost savings or large orders. With a carefully designed strategy that rewards larger orders, you should hold yourself to your plan ignoring the empty pleas and promises from distributors and chains that they will not deliver on unless the product demands it.

If the product deserves it, why reward the distributor for adding nothing of value to your program. The obvious lesson being that lower pricing does not result in larger orders, so why offer it? If all the power comes from your product, why give in to the chains demands? They are providing little assistance to your effort and are probably not worth the deal they are demanding.

Honor the smaller distributors and small chains who will buy at published prices. Honor the large stores that will also buy at normal wholesale, and build profitably one store at a time, and soon the distributors and larger chains will come to you and be more willing to accept your published prices.

If they are buying small quantities, they will pay more, and you will have a profitable sale. Let's not lose money on every sale just because they appear to be willing to buy large later, until they actually offer a large order and deserve the lowest pricing available.

The chains and smaller distributors purchasing from manufacturers argue they must fit into the pricing strategy allowing

them to compete with the big guys and minimize their order. Do not believe this; it's untrue, and just a ploy to capture more profit from your sale.

Here is my point, if there is a mutually beneficial strategy agreed upon which will support greater distribution, then I am all for it, but to automatically assign significant discounts to modest order size, when there is no cost benefit, no real distribution benefit, it makes little sense, and you are simply giving away the margin unnecessarily while hoping that larger distribution efforts will result. It won't. Every sale should be profitable, do not get trapped in the no-win predicament where promises and potential get the best price, make them earn it. You are in business to make a profit, never forget that.

## **You Want Net Profit, Not Gross Revenue**

Why is it that so many entrepreneurs focus on gross revenue and not net profit? The illusion seems to be the bigger the gross revenue, the better job we are doing, and the more successful we are.

If someone runs a multimillion dollar company, apparently, he is smarter, better, and more successful than if he achieved only one million in gross revenues. Does anyone ever consider that the objective is how much money we make after expenses, overhead, costs of goods, labor, and not how much money we make before deductions? Too many people believe they will make more if they gross more, not considering or even evaluating the net profits at the end of the day.

Too often, I see companies develop gross revenues at the expense of profitability. They incur huge overhead by additions in payroll, inventories, advertising, debt, and most often reduced profitability for the sake of more sales by reducing prices. This is madness. Recently, I evaluated a business that had three retail stores and a warehouse. We demonstrated that by eliminating two stores and the warehouse, we reduced gross revenues from \$4.5 million to \$3 million and made a whopping profit on the one store because of a huge reduction in overhead expenses and payroll. In fact, we demonstrated that the additional \$1.5 million in gross revenue produced no additional profitability at all because the increased cost of doing business absorbed it all.

An easier, more controllable one-store plan was far superior in delivering a better quality of life as well as yielding more bottom-line

profits, yet the owner wanted to maintain the three-store operation. More revenue, he believed, must be better.

No my friend, quite the opposite is sometimes true, but our fixation on the amount we gross is very deep and hard to jettison. Unfortunately, I believe it is all ego-driven, a numbers game, and the wrong numbers are being played. It's the net number not the gross that counts. I see this focus on gross revenue destroy companies every day; it usually comes with two strategies.

First, the owner, who wants to increase revenues without concern for profit, will either lower the price to get the big order or set price below market levels for everyone to pick his pocket in exchange for greater gross revenues. No, we do not make up for this loss by selling more; we lose more on every sale we make.

Second, the owner typically adds salespeople and administrative middle management to manage the growing business without concern for the costs associated with the labor and related overhead requirements. So he sells himself into oblivion gorging on low profit sales inadequate to cover the inflated overhead. These are two direct paths to financial crisis and losses.

If only we were as focused on net profits and controlled overhead, making only profitable sales and leaving behind loss leaders and cut prices. Learn to say, "No!" to price gougers who promise you huge sales at ridiculous prices. Exercising sound business practices, we will experience reduced revenues but increased profits. Say, "No," to low-margin sales. That's smart.

When next discussing your business plans, look hard at the bottom line and explore alternative strategies that are less expensive with reduced overhead. Hold profitability with effective pricing that throws profits to the bottom line. We want net profits, not gross revenues.

## **Gross Revenue and Cashflow versus Profitability**

Many entrepreneurs believe that first you fight for expanded sales, building revenues, cashflow (profit be damned), and then fine tune for profitability once you achieve the level of revenue you were looking for.

I have seen this theory practiced in many failing enterprises, as the business owner tries to build the customer base first and, if he manages to remain in business long enough, begins to raise prices, charge for shipping, trim internal overhead, adjust payroll, advertise

less, and build in profitability. He usually fails to accomplish his goals as he chokes to death from lack of capital, while trying to live and grow off of cashflow.

Some say he went out of business because he grew too fast. This frequently occurs, but the real reason is not just rapid growth but rapid unprofitable growth. He went out of business because he had inadequate profit to carry him. You cannot grow on cashflow alone, especially unprofitable cashflow.

Building revenue and then fine tuning for profitability sounds like a reasonable approach, but upon closer inspection it is fraught with inconsistencies and contradictions. It will result in cash starvation forcing an implosion. Especially in a rapid growth curve, the cashflow will not save the day.

First of all, since we are always chasing our dollars, between inventory, work in process, raw materials, daily and weekly overhead, and hard to collect accounts receivables, if we do not make a reasonable profit, we will not have enough working capital and will crash and burn. There will be inadequate funds to run the business.

Assuming you have not started with an enormous bucket of cash, the only way to finance growth and development is with profit from each sale. It is a huge challenge even then as accounts receivable are always representing a large amount of unavailable cashflow especially in a growth curve. Thus, profitability is even more crucial to basic survival, let alone growth.

Why not start with profitable sales from the very beginning, and become more profitable every day, reinvesting the profit to fuel and support growth and development? Can there be any other way to succeed?

Further, what is the value of creating a customer base that is only willing to pay a below market price? Is this a sustainable client base, a foundation? So I ask the rhetorical question, what possible reason would we have to sell anything at below an acceptable level of profit? I can see no reason although I see it happen all the time.

Recently, I watched a client lower the price for installing flooring to match a competitor, to meet a customer's budget requirements, and to grab the sale. The price was so low it was very questionable whether even a very narrow gross profit would be earned, and with overhead, it clearly would not be profitable at all. Contribution, he said, keeps the employees busy, it's an in and out job, a quick turnaround, so why lose the business?

This is a very good question and still gets the same answer:

there is no reason to work unprofitably. Either charge a reasonable profit or do not do the business. If it's all about contribution to reduce the overhead burden, then change the overhead to have less burden, but the only thing that reduces the overhead burden is profit, not cashflow.

Every dollar that is used that is not profit is a dollar that belongs to vendors, overhead providers, and payroll. You're borrowing today those available dollars designated to cover overhead tomorrow because of the timing of the flow by replacing them with future dollars as they arrive.

This may work for a short while, but eventually when the market declines, a receivable doesn't arrive on time, a hiccup from whatever source occurs, or growth which demands investment requires more and more cash, you're not getting new dollars to replace the ones you used. Then you can't buy inventory or pay bills or payroll, despite growth in revenues, or at least sales, you will then understand the reason to work profitably and grow out of margin.

Think about it, there are three challenges confronting your cashflow.

1. Money needed to cover old unpaid payables that tend to build up when operating unprofitably.
2. Money to cover current operations such as overhead, payroll.
3. Money to invest in growth and development such as additional product or manpower.

Don't forget a large percentage of your usable cash is trapped in receivables 30 days or more away. So how do you grow when you have to cover the old, cover today, and build for the future while waiting for your cash to arrive in 30 days...impossible in a word.

The only possible answer is to grow out of profits (or new cash investment). The concept of growth first, profit second is pure folly. Every job, every day, every week must be run profitably regardless of gross revenue. Growth comes from investing new capital either from sales or investment but not from cashflow. Resist this old unsupportable tale of revenue first, profit second, it will be written on your businesses tombstone if you fail to remember this.

## When Increased Gross Revenue Nets Less Profit

I was with a business owner the other day who exclaimed quizzically, “When I was doing \$750 thousand annually I was bringing home \$150 thousand. When I grew to \$1.5 million I brought home \$125 thousand. When I went to \$2 million, I brought home \$100 thousand. Now that I am doing \$2.5 million I am bringing home \$100 thousand. What’s the deal here? The more I do, the less I earn!”

How true, how typical, how annoying, how potentially devastating. Here is what’s happening to growth curves for many small business owners: the more they do, the less they earn.

The reason, a business not run or controlled effectively, with no key indicators or financial reports to support management decision making is a runaway train headed for a crash...and it’s around the corner.

Simply stated, the larger an out of control business gets, the more waste, the less profit, and the less cash there is at the end of the day. Despite the reality that the gross volume is increasing annually, the net is decreasing just as rapidly when a business is out of control.

Greater revenue can cover a multitude of sins, but the day of reckoning soon comes when there is not enough profitability or cashflow to continue the juggling act and the walls start crumbling and falling down.

What happens is more waste, defects, and returns, lower pricing through giveaways by the salespeople to attract more sales, greater advertising which brings in more business but erodes more profit, more employees hired to support growth but productivity is very low, cost of materials and overhead is growing rapidly but pricing is typically coming down just as rapidly and the mantra of the business, the driving force, is more revenue not more profitability, rather than what it should be.

The small business owner speaking earlier was better off doing \$750 thousand per year and taking home \$150 thousand than now doing \$2 million annually and taking home \$100 thousand. His business is screaming for management leadership. He needs information so he can fix it, including financial reports and a deep evaluation of his operation to correct the problems, stem the losses, and stop the leaks.

With financial reports he can see what his real earnings are. With an analysis of his productivity he will learn he has far too many

people doing far too little work. With his analysis of his cost of goods, he will learn he has not adjusted his pricing for years and while his costs have crept up his pricing has crept downward. He will see his average invoice is smaller and his margins decreased, he will learn his sales force is lowering price with giveaways, long terms, returns, and so on, just to increase sales revenues. He will see his advertising budget is way too high. He will learn he has too much inventory and has a few too many losers on his sales sheet. He has too many sales-people selling too little and earning too much...and on it goes. Here is the answer:

Less can mean more. Less gross revenue can contain greater profitability in percentage as well as in actual dollars. Get smaller and more profitable is frequently the answer. Undo the sloppy management style, insert appropriate controls and analysis, then grow with control. That's the solution.

Clean up, tighten up, and make the changes that will result in a cutback of revenue but an increase in profit. Something that is especially important in a down economy. Jobs are being lost every day, industry shutting down constantly, overhead rising, people are spending less. Prepare by responding appropriately: tighten the ship, prepare for declines, and focus on profitability...sell less make more, manage correctly. That's the message.

## **Rent to Your Business and Reap the Benefits**

A few reasons support the strategy calling on the business owner to purchase the real estate the business occupies and then rent it to the business for whatever price within the fair market range makes sense. Here's why business owners should use this strategy.

Income generated through a distribution or from profits, if it's taxed as a partnership (within an LLC or as a partnership) or even an S corporation with pass-through profit, with a portion resulting in taxable income, requires the self-employment tax, as much as 15 percent collectively from all sources, a sizable amount worth avoiding if possible.

If instead of this taxable format, you substitute rent income for self-employment taxable income, then you avoid the self-employment tax, saving approximately 15 percent, which is a significant saving.

This also works if the business owner already owns the property. Instead of *not* renting it at all, *not* taking cash to save the cashflow for the business, please rent, and reinvest the capital if necessary, but

exchange taxable self-employment income for rental revenue. Save 15 percent in tax then reinvest if you choose; it's a better deal.

In addition, rent is an expense to the business, allowed as a deduction that reduces taxable income for the business.

The real estate is then out of play, protected from any claims against the business as it is no longer a business asset that creditors can reach or attach in a lawsuit, which is a very good idea in view of the huge number of corporate lawsuits filed every year.

Further by adjusting rents within fair market constraints, according to the availability of taxable income for offset, this allows for some valuable tax planning opportunities. Considering the depreciation, the interest write off, and the additional expenses deduction for insurance, maintenance, and repair, it may be a very valuable asset for the owner to take against his personal income.

Thus, for stability purposes and protection from possible claims and lawsuits, it makes additional sense for the owner to purchase the real estate the business operates out of. It should be purchased by the owner directly and rented to the business with full deduction of all costs by the owner to take full advantage of the benefits.

The same applies to expensive equipment, which rather than being owned by the business and thus vulnerable to attachment as well as wasting potential tax benefits, it too can be isolated in a separate LLC owned by the business owner and leased or rented to the business, safer and more valuable for the owner.

New autos also work in this scenario, especially with the 2010 year 50 cents per mile business deduction. Better the owner should own the car himself and take the mileage deduction; it will pay for the car in one or two years if you have adequate income to absorb the huge write-off available.

It's about maximizing the potential tax benefits and protecting the property from attachment, two good ideas that ought to be maximized.

## **Expand the Invoice...Improve Your Bottom Line**

The pursuit of more business is universal to everyone in business, of course. Finding another great client, the next big order, is what's on everyone's mind, and we go to all ends imaginable to succeed, getting more business...the eternal, perpetual objective.

Adding goods and services to the invoice is a great way to create additional revenue and profit without having to create or find

additional customers.

I was at the cleaners the other day and noticed a rack of snacks, some sewing kits, buttons in a small bag, collar stiffeners, and a host of other impulse items, and I asked, "Do you sell much of this stuff?"

With a large smile and a beaming face the owner said, "I sell something to nearly every customer that comes in by offering them some item they appear to need."

He further responded to my inquiries exclaiming he earns a sizable profit off additional add-on sales and plans on expanding the opportunities for his clients to buy more.

I visit a coffee shop near my home and love to look around as they sell all sorts of impulse items that are reasonably inexpensive but cool, fun, or perfect for a small gift or a fun toy. I purchased a pencil sharpener that looked like a nose that required you to put the pencil in a nostril. It cost \$6.95 and lasted a week but was fun and worth it, and I may buy the rhinoceros one next.

More service oriented, an electrician client always sells add-ons to every job he visits, like a full house surge protector for just under a thousand dollars. They go like hot cakes, or a full house lightning protector, or an outside motion detector light, these are reasonably priced add-ons that make a tidy profit says my client. He sets up swimming pools with the electrical work required then sells additional lighting or other electrical fixtures.

On it goes, every business can think of ways to add products or services to increase the invoice, it may be pure impulse items or simply expanding the service or business you are currently offering with some creative ideas.

Once you have the buying attention of a customer, it is infinitely easier to add to the invoice and sell another service or product than to create another customer. Repeating this process often enough will expand revenues and increase profits dramatically. The idea is, however, to add opportunities for your clients to purchase more from you, be it important major items or services, or small impulse items, it all adds up.

There is no better prospect than a satisfied customer, so find a way to expand your offerings and increase your profits. It's not about creating new business, that's another task altogether. It's about increasing the invoice to include additional goods and services beyond what the customer originally had in mind. That's added value, packing the invoice with additional sales items or services.

## Are You Focused on the Wrong Part of Your Business?

Small business owners have a huge job, larger than life. Mostly because they fail to organize appropriately splitting the management duties into the three basic components, production, finance, sales and marketing. They spend their days hopping between the three appropriate divisions paying attention to the squeaky wheel, the issues screaming for attention, and the issues that appear most important, typically finances and production. That leaves sales and marketing to happen on its own.

After all there are just so many hours in the day, and the small business owner infrequently asks for help, less frequently allocates responsibility, and seldom organizes effectively. As long as he is busy, busy, busy, he must be managing, managing, managing, and thus is satisfied he has done his best every day.

Typically the small business owner specializes primarily in putting out fires and babysitting his people. Usually, the next priority is spending time and attention on the most important clients, the ones providing most of his revenue. These areas certainly seem like the right use of his time and energy, and they are important functions for the owner to focus on. It is, however, the wrong priority. The above frequently repeated very common scenario is a cycle which prevents progress, growth, and development—prevents it. So what should a business owner be focusing on? Sales and marketing.

We all know that nothing happens until something is sold. We all know that the single most significant and most frequently stated issue preventing growth and development is inadequate funds to support overhead, payroll, and of course, growth and development. But what do we do about it? Increase our focus on sales and marketing? No, we ignore this division and allow it to do whatever it does more or less on its own.

The first budget cut is always in the sales and marketing area, be it advertising or staff. The least effort, time, and energy spent are on sales and marketing. Most sales and marketing programs are based on allowing the potential client to find you and ask you to sell something to them. Waiting for the fax machine to spew out an order—that's a frequently utilized sales and marketing strategy!

Most people argue they do not have the capital available to effectively advance the sales and marketing programs they can conceptualize and dream about, if only they had the money to do it.

You can have the money to promote, market, advertise, grow, and develop if you market successfully and support your sales effort.

Why wouldn't this division be the first and most important aspect of your business day? Increased sales means increased revenue, means freedom to develop your business successfully and profitably.

Make the sales and marketing responsibility your primary focus and your financial worries will be over. Make sales and marketing your primary effort and production issues will disappear as you will always have adequate inventory, materials, equipment, and so on.

This does not mean you have to spend yourself into oblivion and buy more ad space. No! Sales and marketing efforts do not have to have a significant budget, it can be done on a shoestring; it simply must be done.

Sales and marketing is the most important leg supporting the table, and a significant effort must be devoted to this division to reap the desired results. Nothing happens until sales are made. Change your priorities and focus your energies, creativity, and management skill in this area and reap the benefits.

## **Horizontal or Vertical Expansion**

There are a number of alternative strategies supporting profitable growth and development. Two alternatives are vertical or horizontal expansion. Both work; it depends entirely upon your goals and resources.

Vertical development follows the natural chain of value-added commerce: importing or manufacturing, wholesale distribution, retail sales, then direct sales to the consumer. Follow the line of development, the natural flow of a product from the original source to the end user through all the various channels. Each channel is a vertical step.

Horizontal development is more about growth by expanding more of what you are currently doing, such as expanding manufacturing in other locations, creating more distribution outlets or expanding the territory, adding more stores geographically, or expanding internally creating greater and more diverse capacity and capability, more machines, more product, more locations, more warehousing capacity, and so on.

With the evolution of the Internet, the direct market as well as the wholesale market, the-business-to-business market is completely

open and accessible. Manufacturers, wholesale distributors, and even retailers have the opportunity to sell direct to anyone who has access to the Internet. For the cost of an effective Web site, you can expand vertically quite easily.

A manufacturer can begin distribution and even retail and direct sales to the market. A retail store can sell direct through the Internet, open more stores and with enough margin, may even create a wholesale distribution network. Horizontal and vertical expansion, one feeds off the other. Both are natural development paths, both can be successful, as opportunities are available to expand in either direction, horizontal or vertical.

Clearly, another important and limiting factor is the amount of capital and other necessary resources required to support your expansion plans. Do the cashflow pro forma, and plan the expansion effectively based on the cash required and what is available.

In vertical expansion situations, clear separation between the stages are sometimes necessary, as competing with your own customers and suppliers can be tricky as you expand vertically. However it can be very successful if each layer of vertical development is operating independently and separate from each other.

The old real estate adage, the three most important factors are location, location, location, applies to both vertical and horizontal expansion, as location can determine the likelihood of success. It is not that there are specific winning factors that define success when determining what location is best, it depends upon your marketing program. Discount Flooring, a national chain and online store, made their mark by locating in remote, low-rent areas, offering low price and no frills. The entire marketing program and strategy supported horizontal expansion, all over the country.

Outlets bring factory cost to retail pricing, an opportunity for deep discounts and sizable profits. Locating in a discount mall which attracts a huge population, is expensive overhead, yet with large traffic the location creates significant revenue potential, and is another successful strategy.

Locate distribution channels where your competition is not doing a great job or where there is a large client opportunity. Most any growth plan can work if it is integrated with the location and supported by a marketing plan that takes everything into consideration. Many good businesses languish because of inappropriate location.

Here are the three most important location decisions you will make:

1. How do you want to expand?
2. Where will you site your new location, if you require one?
3. What is your marketing strategy to support your growth plan?

If it's all tied together, well thought out and implemented, you will succeed, either way you choose to go: vertical or horizontal or both.

Look at your industry, competition, client base, and available capital, and then determine what path for expansion will work best for you. Design your expansion by matching your resources to the plan, over time.

Horizontal or vertical? Both work, it's a matter of preference, strategy, and opportunity, market dynamics, and availability of capital to support the growth requirements.

## **No Growth Without Capital**

I believe this issue is the cause of many downfalls and failures of small business entrepreneurs. They commence a growth program without any new capital infusion to support it, believing the growth will be fueled by revenue from new sales. Self-liquidating growth, nice idea; it doesn't work.

This is an impossible dream and will absolutely result in frustration, huge losses and eventual failure. Yet, so few understand and so many attempt implementing this strategy.

Here are the three issues controlling this phenomenon and preventing success:

1. There is infrequently adequate cash from current sales revenue to cover current operations.
2. There are typically past sins that also require debt service that also must come out of current operating revenues, putting more demand on the scant cashflow and profitability that is already stressed, two strikes.
3. Any strategy to increase revenues by launching a new product, service, ad program, or other strategy, requires

some investment for production of inventory, marketing expenses, additional overhead, also out of operational cashflow, three strikes.

Now, the table will collapse since some available cash was applied to the growth program leaving payable and operational overhead in default. In fact, what happens is, if the new program is successful, creating new orders and new additional revenue the cost of production, work in process, inventory and so on will choke you before you get off and running. There is never enough cash to support all three areas.

Current operations, past obligations, and fuel for growth cannot be funded out of current revenues. Yet despite this virtual rule, so many bet the farm on their latest and greatest innovation and effort believing that increased sales from new expansion will solve their issues when in all reality it will implode them.

Why you ask? Need more to be convinced?

Cashflow, profitability, those are the reasons. Here is why. Receivables are always 45 to 60 days away, so right off the bat you are not seeing your cash for a long time. Payables like payroll and taxes come weekly and are unmerciful, demanding payment, and typically are increasing with growth and development, problem two.

Third, cost of goods, work in process, inventory, advertising and marketing costs, all the extras required to launch new efforts must be paid for and put greater pressure on the cashflow.

However, lest we forget the intoxicating reality of cashflow versus profitability, the only excess capital you really have to spend is the elusive increased profits from additional sales. Considering the nature of any new innovation or launch, how much additional profitability can you really expect and collect in the short or medium term? Not much I would venture, certainly not adequate if you consider the time it takes to collect receivables.

There simply will not be enough additional profit available to fund the growth as already described, as the existing cashflow is far too demanding to allow room for expansion. The answer most people offer is, "Sell harder and create more immediate revenue." Wrong, it will all be absorbed by overhead, work in progress, inventory, receivables uncollected, and marketing efforts. It will not work; don't go there, you will fail.

The only workable answer? A growth and development plan requires substantial investment and additional working capital. A cash-flow plan will reveal this reality. Do one and see what it says for

you. There are no surprises here. There is no magic. It's simple arithmetic.

Growth and development must be separately and additionally funded. Plan accordingly. Do not fall into this trap, as so many do. The big three will eat your plan up: current overhead, past payables, and cost of development, coupled with the inconsistencies of account receivable collections and account payable payments.

## **Beware the Dangers of Merchant Cash Advances**

So many businesses are in need of cash and because of poor credit issues cannot get the support they require from their bank, so they are easy prey for various nontraditional sources for new capital.

One easy source that more and more businesses are accessing every day is the merchant cash advance (MCA). Based solely on the revenues generated from business credit card machines, it works like this.

Depending upon the dollar volume of your credit card business, the lender (not really a lender because it's not really a loan but probably better described as accounts receivable financing), simply advances an amount of capital, usually less than \$150,000, to a business and is paid back out of the revenues the credit card machine generates, automatically.

The so-called *fee* is approximately 25 percent of the *advance*, but when calculated as if it were *interest* on the *loan* can amount to hundreds of percent, even as high as 400 to 500 percent annualized. The MCA is unregulated because it is not technically a loan.

MCAs are compelling because of the following few reasons:

1. It is quick and easy. You can have your cash within a week with little paper work and no credit issues.
2. Payback is automatic and daily, so you pay less when business is down and more when business is up.
3. The debt is unsecured and not personally guaranteed by the business owner and only paid if the credit card machine generates capital. If your business fails and you have done everything correctly, there is no personal obligation to pay it back nor is there any additional collateral for this service.

Here is the trap. The advance is typically designed to be paid back within a three- to six-month time period, thus a 25 percent fee

when recalculated as if it were interest and annualized can result in a comparable annualized interest rate of hundreds of percents.

If you happen to do well for a short time period and pay back more of the advance sooner than anticipated, the interest rate goes through the roof.

Keep in mind that the already contracted and typical credit card fees remain for the intended use of the merchant account, so the 25 percent fee is above and beyond these fees!

It is unlikely that any business can afford such a financing arrangement for very long, or at all, as in the end not only will it absorb your profit, but it will create a larger cashflow issue than the one you were probably trying to resolve.

This is an easy source for capital desperately needed by typically uncreditworthy businesses strangled by inadequate cashflow, low gross revenue, and slim profitability. Without any other more traditional capital creating alternatives available, the advance may appear attractive and eliminate some immediate problems, but this is probably not the way to resolve the real issues.

A decade ago there was one such merchant advance business, and it advanced approximately ten million dollars annually. Now there are over fifty businesses offering this service, and the anticipated advances this year are over seven hundred million to one billion, a significant amount.

Think twice and reject the proposal when the high pressure salesperson knocks on your door. It's a trap for the unwary. Find another way to resolve cashflow, profitability, and gross revenue problems.

# Know Your Numbers

## Understand the Language of Business

Numbers are the language of business. Learn this language, understand what it is telling you, and be in control of your business.

Successful business starts with a vision, a plan to reach your vision, an organizational format to support your plan, adequate financing to support your roll out, and off you go developing your dream and delivering your product or service to the market place, the ultimate frontier.

But that's just the beginning. For a business to be successful, it must be successfully managed, you must listen to its heartbeat, take its blood pressure, and track its pulse by monitoring its key indicator numbers in each department: finance, operations, sales, and marketing.

Track, monitor and control the key indicators, all the numbers of doing business:

- Profit and loss statements
- Balance sheets
- Overhead
- Payroll
- Accounts receivable
- Payable aging
- Gross and net profit

Without tracking the numbers, your business is a runaway train, headed for a crash somewhere, sometime. Closely track, monitor, and control your business based on the key indicator numbers and financial reports and it will soon play like a

Stradivarius. You will make management decisions based on real information not gut intuition. You will never again utter the word...Oops!

Far too many say they are not numbers people, so they skip this part of their business operation preferring to focus on the vision, delivering the product or service they have passionately chosen to provide the market. I say, then get a job, do not consider small business ownership as an occupation because numbers are the language of business, and without understanding them you are destined to fail, despite the quality of your product or service.

Business success is not just about the product or service; it's as much about the science of doing business, and that's controlled by numbers. Listen to the numbers, embrace what they tell you; they will show you the path to success, consistency, growth, profitability, and security.

## **Know Your Business Key Indicators**

Review your key indicators every day, every week, every month. Then you can control your destiny. You can either hold the course if it's all working as planned or make adjustments immediately if there is any vacillation. Every day you wait before responding is more money lost, not taking advantage of opportunity, or allowing a small problem to become a very costly large problem.

That's the beauty of small business, immediate responsiveness. It's like sailing a small sailfish boat, every adjustment you make and every tack you take immediately changes the direction the boat is going.

If you are tracking, monitoring, and controlling your business, you want to read your key indicators and make adjustments as soon as possible. If you are holding the course no matter what your navigation is telling you or because you have no navigation tools, you are allowing the boat to steer you. Not good.

So what does this mean? Key indicators are the pulse of your business. They report your condition and direction. Key indicators may include:

- Number of sales per day, week, salesperson, or product
- Length of time to absorb your back orders
- When you can deliver the next job
- Production figures (or ratio between employees and

dollars earned)

- Accounts payable
- Cash in the bank
- Receivables
- Profitability
- Dollars per hour per service person
- Amount shipped (in dollars or number of widgets)

Choose the key indicators to use based on the type of business you run. A restaurant may count turnovers or seats served. A manufacturer may look at the production number, a retail store its inventory turns. An airline looks at filled seats. Some track gross dollars. Some track net dollars. The idea is to track relevant data, take note of changes, and then respond to what it means especially if it indicates a trend.

Every business has four to six key indicators, pulses that, if tracked, and monitored will tell you the condition of your business and the direction it's going, up or down. Your job is to determine what the most telling key indicators may be. What will alert you to impending success or failure?

When tracking and monitoring key indicators daily, you can track small changes that predict trends and you can make appropriate adjustments far sooner than without monitoring. When you see an indication that change is taking place, small changes can predict important trends before they become large issues.

Large changes force you to take note, and they point to issues that must be examined and interpreted. Something is either very right or very wrong. Tracking key indicators gives you control. You will know both small changes that predict possible trends and large changes that indicate an immediate problem requiring attention.

Couple these key indicators with reviewing basic financial statements such as profit and loss by week, month, and quarter and you are in a position to control the success of the business. If your business is job oriented, wouldn't it be nice to be able to tell your profit and loss on a job-by-job basis?

That's the beauty of small business. You can see what's happening by the end of the day and make adjustments that reflect the changes the next morning. Key indicators support management decision-making with real information, not just gut feelings. Gut feelings are important but best listened to with the information to

support it.

I hear business owners say they do not have enough time to monitor their numbers. You must. Reduce whatever else fills your day to implement this style of effective management decision making. Track monitor and control....it's the steering wheel, the compass, and the map of your business. Information you must know.

## Key Indicators and Accountability

Reading Rudy Giuliani's book, *Leadership*,<sup>5</sup> I found a section regarding how he turned his police department around and broke national records for unprecedented, breakthrough improvement. He developed then measured categories based on those used to grade police departments around the country. It's a terrific yet simple path to success and has direct application to many of you running small businesses.

According to his book, Giuliani believes in accountability at all levels for all personnel. That means managers having goals and objectives and being held accountable for achieving them. He further believes that the way to reach the prescribed goals is by measuring success, by tracking and monitoring the key indicators, coupled with frequent challenges, reviews, and evaluations of the progress being made as well as the problems experienced. Then make adjustments in the goals when and if necessary. In other words, he is a believer in the holy mantra... "Track, monitor, control," the three words I use constantly as requirements for managing a business successfully.

Giuliani did a few things to implement his own style of track, monitor, and control. He had his eight police districts track nearly every imaginable and measurable statistic that could be accounted for. He asked them to track everything from the dozens of types of crimes that could be committed, where they took place, complaints, response time, accidents, even gunshots. You name it; he had it tracked. Then his assistants monitored the tracking taking note of every increase and every decrease in every category.

Once every six weeks he met with his full staff and the entire management of each police district and grilled them on why some numbers were going up. He congratulated them on numbers going down and wanted to know why they were dropping, so others could learn about their successful implementations.

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<sup>5</sup> Giuliani, Rudy. *Leadership*, (Hyperion: New York City, 2002) p. 69-97.

Not only was holding them accountable for both success and failure critical to the overall success of the turnaround but having everyone responsible for the results at the meetings prevented anyone from passing the buck or offering excuses. Someone was there who was personally responsible for the results and needed to answer for the why, what, and when.

What soon developed was a self-monitoring process, followed by everyone involved up and down the entire chain of command, with managers and taking responsibility for the improvement of the department's performance, holding themselves accountable for the end results.

As soon as the police executives in each district saw some of their numbers climb they would be there all over their forces asking why and making changes so when meeting with Giuliani they had both improved numbers and good reasons for bad numbers along with a proposed plan for changes to improve them.

It worked so well, that the results made the New York City police department the talk of the country, and this program was soon being emulated all over the country by other major police forces in other large cities.

This story, based on the role key indicators and accountability, should serve as an example to every small business the need to manage with information. Implement a key indicator system: track, monitor, and control then reap the benefits.

## Managing with Key Indicators

Here is a short scenario that shows how using key indicators is the way to take the guess work out of managing and provides you with the systems that will help you create and maintain a profitable organization.

My client has made a number of critical high-impact moves as follows:

- Closed a large warehouse, and now has materials shipped directly to the job sites
- Shut the remote office and re-established his office in one of the stores
- Removed the deadwood, underperforming employees
- Rented half his space in one store to a complimentary



























































































































































































































































































