Marketing Instincts

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Management Consultants

Small is beautiful..

Strategies for sustaining profitable healthy growth..

Business is operating today in a market that is evolving at an unprecedented speed. Almost every industry and sector in the economy is experiencing rapid change. Deep changes are happening at the macro and micro levels.

Consider the following ***macro trends***: *International trade* is on the rise and the flow of free trade is steadily increasing. *Cross border investments* are on the increase and the movement of capital is to a large extent unrestricted. *Consumer preferences* and shopping habits are also changing through the big box retailers, e-commerce and the Internet. *Savings rates* have and continue to experience massive shifts. The *financial markets,* after sustaining incredible growth, have lost remarkable ground during the past few months but continue to experience changes. And of course, *technology* is advancing at the speed of light with no visible sign of slowing down. No doubt that tremendous change is happening at the macro level, any way you look at it.

Now consider also ***micro trends*** that are specific to the business environment. Well-established large businesses that should withstand any storm are failing miserably. Whether they are operating in the mature old economy or the new economy does not seem to make any difference. Whether they are department stores, music retailers, airlines, auto manufacturers, high tech or “jazzy internet” does not seem to matter. Some have gone, many are bleeding and several appear to be slowly but surely on their way to the graveyard.

Large size was synonymous for strength and invulnerability. Large corporations can after all attract the best talent, have access to capital, can afford expert advice and can use the latest technology. So why do they fail?

Current research in North America reveals that the average corporation loses half of its ***customers*** within five years, half of its ***employees*** within four years and half of its ***investors*** in one single year. These are staggering numbers.

Fast ***turnover of customers*** is certainly due to the lack of customer focus by your average large corporation. While large corporations speak about customer focus and customer care, they constantly fail to get it right. Unmotivated front line workers and inattentive and impersonal service are the norm.

Call centers that are supposed to provide good service are instead providing slow, impersonal and frustrating service. Some call centers give the impression that they were designed to discourage customer calls!

As to ***employee turnover,*** if large corporations have placed low importance on their loyalty to their employees, why is it surprising that employees have lost their loyalty to their employers? Massive layoffs appear to be made without a minimum regret and without any hesitation when executive pay is at an all time high! The largest business loss ever recorded in Canadian business was sustained in 2001 by a large company that during the same year had three of its executives make the list of the top five highest paid executives in the country! It would be difficult to ask an employee to have professional and ethical respect for his/her management team or the board of directors who authorized such an occurrence.

Finally, no wonder ***investors***, including large institutional ones, also have very little loyalty to their portfolio of investments. Stocks are bought and dumped with no hesitation. Greed has made its way forcefully to the top of large business in North America.

So, while large business has access to considerable resources and should theoretically be well positioned to prosper, it seems that the same factors that represent opportunities such as technology, competitive market place and changing customer needs are the same factors that are exposing management mediocrity as never before.

At the executive level and the board level, decisions appear to be made without regard to strategy, without accountability and with little evidence of the human resource factor of a company which, when all is said and done, is simply the most important "engine" for success or failure.

In today's fast paced marketplace, I believe that small business has a definitive competitive edge. Here is why:

- A smaller team with focus, determination and higher motivation is indeed more powerful than a larger "army" that is run by remote control from an ivory tower. The army may look good but only in the parade. In the battle, nothing beats a determined and well-motivated team.

- A smaller company has closer contact with its customer base and a clearer understanding of what they like and dislike, such as what "turns on" the customer, what is his/her price tolerance and alternative choices, if any.

- A smaller company can use technology effectively today and leapfrog big business. It does not have to go through a long evolutionary cycle. Technology allows you to accelerate the stages of growth. Maybe not without risk, but certainly in a more "doable" manner than at any other time in the past.

- Small businesses have lower overheads and can pass on "cost advantages" to their customers without sacrificing profitability. No ridiculous compensation packages at the top and no layers upon layers of "deadwood" management. Incentives are deployed towards the troops and all work as a team. No large unions that kill innovation and promote the status quo.

- Small business can be more flexible and agile in adapting to market conditions and can capture opportunities faster and change course much more quickly than large players. "Cruise control" is good for an open highway but with crowded traffic, agility, maneuverability and swiftness are key.

These factors however do not automatically spell success for small business. They give you an advantage and translate into opportunities. As a small business you also have limitations and forces that are working against you. As a management consultant to small and medium size businesses, my experience over the last six years has shown me the pitfalls of small business. Here are some and how you can avoid them:

Strategic planning

Small businesses seldom prepare a strategic plan and this is a big mistake. Make sure you put together a good strategy. Do not just make a budget. Make plans. Sit with your team and formulate a strategy for the next few years. It does not have to be a huge and elaborate document. A strategic plan can be short. Strategic planning clarifies where you are, where you are going and what needs to be done to get you there. Do not overlook it.

Spell out your vision of the business too. The Bible says, without vision, the people perish. This is oh so true. Look at every failed business. No vision from the top. Do not just float. Swim to your destination.

Market, customers and prospects

Do your homework on the marketplace frequently. What are the driving forces in the market place? What changes have occurred and what are the consequences? Have customers' preferences changed? How are these changes affecting your sales and marketing activities? How is your repeat business? Do customers come back and why? Do they go elsewhere as well and why? Are there any other needs that are not met by your line of products/services? How is your new business? Is your customer base growing or is it declining in numbers of customers and if so, why? Are you fishing in the same old pond or are you fishing in new ponds? Are you fishing for the same traditional species or are you finding new types of fish? How is your sales cost performing as a percentage of sales? Find out personally what's happening with the marketplace and in your shop.

Competitive intelligence

Do not overlook checking your competition. Do you know what the competition is up to? What are they doing? Where do they aim to go? What are their prices? When were they last changed? What will they most likely do in the future? Are there newcomers in your market place? Have any competitors exited the market? Any changes of ownership? Any changes in management ranks?

Do you periodically visit your competitors' websites? What's new? How does your website compare with the others? When you use search engines, does your website come in the first ten, twenty, thirty? Check your competitors out periodically, systematically.

Financial & operational objectives

Most business people look closely at their profit and loss statement. They attempt to keep their profitability under check and so they should. But do you also look at your balance sheet? Do you review your capitalization? Do you assess your debt to worth ratio? What about your working capital requirements? Get more people to look at these financials. Do not limit it to the top only. More eyes on the bottom line results in an improved bottom line.

In addition to financial figures, do you also set objectives for the various parts of your business? Is productivity measured? Is quality tracked? Does your team have monthly and quarterly objectives? Do you set standards of performance? These can make a big difference!

Back to basics, receivables and inventory

In most businesses, accounts receivable and inventory represent a large portion of the total assets of the business, yet most often no specific persons are accountable for watching over these two types of assets. Usually, slow collections are caused by the lack of consistent follow-up and disciplined billing and collection procedures. Slow turning inventory, as well, is often caused by lack of inventory management rather than just being an indication of sales performance. Making one person accountable for receivables turnover and another person for inventory control and management can make a big difference to your operating results and your balance sheet.

People resources and organizational structure

An organizational structure must evolve with the business. Is your organization in a "start-up" phase, "growth" phase or is in a "maturity" phase? Are you targeting rapid sales growth or are you focusing on bottom line improvements? Are you attacking, defending, consolidating or what? Is your focus on sales or marketing? Are production and operations the main drivers or are the sales and marketing functions the key drivers? All these different criteria have a big impact on how you organize your business.

While the organizational structure must have some stability, it cannot be written in stone to the point of becoming inflexible. It does become that way when "ego" and "turf protecting" infiltrate. The business issues (opportunities, challenges, strategies, etc.) must drive the organizational structure and not the other way around. Of course, a good manager must also take into account the caliber of people he/she has at his/her disposal. This however may be satisfactory for the short term, but not for the long term. If you need new blood or specific new skills for the good health of the organization, you must go get them. Do not procrastinate!

Doctor's check-up

Now this may sound self-serving and it very well may be. Consider, however, if it is a good idea to visit the dentist at least once a year for a check-up, even when you have absolutely no problem with your teeth? The answer is most likely yes. The cost of maintenance is generally much lower than the cost of fixing. How does this apply to business? As you make decisions and plan your strategies, it is good to take counsel from trusted advisors. The variety of opinions tends to bring safety and ensure success. As your business grows, it will go through stages of transitions. These transitions tend to be filled with tension, uncertainty and doubt. It takes careful planning for things to go right through those stages of growth.

Expose your business to a frequent check-up by an external party, an independent party, a knowledgeable party and preferably a well-trusted one. Seek advice and counsel.

Good independent business counsel can bring objectivity to your decision-making and external expertise can bring knowledge to your planning process. A well trusted consultant or a full advisory board may be able to provide this Doctor's check-up so that you can capture all of the opportunities of small business and avoid the pitfalls of being one. Doing these things will more than likely help you to become a "big business"!

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