

MILLION DOLLAR BLIND SPOTS

20/20 VISION FOR
FINANCIAL GROWTH

GARY W. PATTERSON



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Dick Dauphinais

President, Virtual Human Resource

“If you’re tired of treading water, grab hold of Your Million Dollar Blind Spots. In applying these best practices, you’ll shift your company out of the cold depths and into exciting, active, growth potential.”

Elyse R. Greenbaum

Founder, ERG Consulting

Many Thanks...

With heartfelt gratitude to the following, for their time, talent and valuable perspective toward the completion of this book, I thank, in alphabetical order:

Scott Anderson, Paige Arnof-Fenn, Dave Butler, John Chapin, Mary Cole, Dick Dauphinais, Mitch Davis, Julia B. Ellingboe, Bonni DiMatteo, Pegine Echevarria, James Gilreath, Ellen Bohn Gitlitz, Hugh Glazer, Elyse Greenbaum, Larry Grumer, Linda Henman, Randy Houk, Bob Katz, Richard Kirby, Alexandra Lajoux, Duncan Martin, Bonnie Mattick, Roberta Matuson, Jim O'Donnell, Margaret Orem, Christen Patterson, Gary Patterson Jr., Kathy Patterson, Andy Peck, Matt Podowitz, Charlie Ricker, Gary Rush, Don Saracen, Roy Sequeira, John Snyder, Carol Stewart, Yinglan Tan, Dan Towle, Denise Williams, Rick Williams, and Bob Williamson.

This was my team.

Million Dollar Blind Spots

20/20 Vision for Financial Growth

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The FiscalDoctor®



AudioInk Publishers
Issaquah
A Division of Made For Success, Inc.
www.AudioInk.com

Copyright © 2012 Gary W. Patterson
AudioInk Publishing
P.O. Box 1775
Issaquah, WA 98027
USA

Website: www.AudioInk.com
Interior Layout by AudioInk
Cover Art by AudioInk

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Library of Congress Cataloging-in-Publication Data

Patterson, Gary W.

Million-dollar blind spots : 20/20 vision for financial growth / Gary Patterson.

p. cm.

ISBN: 9780982241578 (alk. paper)

LC control no.: 2012943081LCCN

Distributed by AudioInk – www.AudioInk.com

For further information contact AudioInk Publishing, 1-425-526-6480

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*“Good judgment is the result of experience, and
experience the result of bad judgment.”*

— Mark Twain

Introduction

Too many executives suffer a sort of self-inflicted myopia. While they look busy enough with their head lowered to our day-to-day tasks, they fail to look around—and note solvable problems that keep the team from meeting its long-range business objectives.

Simply put, our teammates probably aren't telling us what we need to know, and we may not be providing as much value as we're capable of providing. This book will help you to understand the difference between your organization's deep-rooted problems that never seem to get resolved, and the symptoms that sometimes get treated, but are usually ignored until it's too late—if not for the organization, then certainly for someone's reputation or career.

I speak from personal experience that goes back more than 20 years, and starts with a defining moment as the new chief financial officer of a company that I was hired to help take through a lucrative sale, probably as an IPO. This was a career-launching move with a huge anticipated payday for me at a \$40 million enterprise, whose innovative business had grown so consistently that the *Inc. 500* honored it three years running as a top-growth company. Yet at my second week on the job, I discovered that we had placed \$30 million worth of purchase orders for product—suitcases—that nobody recalled placing. Even if we had wanted them, they were the wrong models, and we couldn't begin to store the massive volume. Have you ever been stuck with \$100 million of suitcases at retail? Neither had I.

How would you survive this liquidity crisis? How would you protect your CEO, who had personally guaranteed the order,

and spare him and all of his officers from public humiliation? How would you save a company's worth of jobs and growth potential? How would I? We faced ruin.

We regrouped. I led an investigation and tracked down the problem (the details are confidential). The company followed my action plan to the T: it obtained a \$25 million bank line, met its obligations, and lived to fight another day. The company is still selling suitcases today. It's still an industry leader, still a household name, still synonymous with quality, reliability, and going places.

The experience I gained from solving that multi-million-dollar blind spot—and many others—prepared me for a career as a successful and highly sought-after consultant who delivers, in effect, *enterprise risk management on steroids*. As a frequent speaker and consultant on leadership, cooperation, communication, and risk, and as a business veteran who has led every functional department in this book, I've helped companies for more than thirty years locate more than an estimated \$100 million of benefits, combined.

I wanted to help others avoid making the obvious mistakes I saw all around me, and I wanted to write a book about it: this book. What you hold in your hands is the essential guide for leveraging the processes and insights that I've gathered to help companies large and small, in industries and sectors far and wide, identify and act on their blind spots. Here are the vital tools to uncover your million dollar blind spots, which stem from financial or operational mistakes, management behavior, or poorly applied technology. Any functional department has the potential to create or correct million-dollar obstacles. Blind spots are opportunities and risks, and you can anticipate, eliminate, or control them.

This is where you come in. As an executive, are you asking the right questions? Are your people sharing with each other—and you—the right information? Have you earned your seat at the leadership table? I wrote this book for the leadership team: board members, the chief executive officer, and the C-level heads of each business function (sales, marketing, finance, operations, technology and human resources). This book treats your business with a physician's discipline and shows you where making simple but profound changes—educating yourself on best practices and evaluating your business across the board—will lead to a happier, healthier and longer business life

By following this guide you'll begin to put more money in your pocket. Build on the information in this book to lock down real numbers, useful metrics, honest assessments, supercharged management teams, unflinching accountability, and a healthy corporate culture. And you'll live the life you want.

Millions of dollars are hiding in the company's books. I examine how organizations interpret their balance sheet, and I'll help you do the same. I helped one company solve a \$30 million inventory problem and avert a spectacular catastrophe.

Millions of dollars are falling into recurring cash sinkholes. I've shown conglomerates' executive teams how to change their accountability and bonus structures, and assign responsibility to deliver results from investment decisions.

Millions of dollars are spent on the wrong technologies. I demonstrated to a billion-dollar technology company that its advanced Oracle system wouldn't deliver timely, usable data as long as the company maintained forty separate legacy database subsystems.

How this book works

- **Chapter 1** starts you off on the right foot and gives you the top ten enterprise risk management questions that you'll need to understand problems, symptoms and opportunities at your business.
- **Chapters 2 through 9** unpack pitfalls and potentials in marketing, sales, human capital, and the CEO/CFO partnership. These two-chapter sections are designed to give you the lay of the land and the skills you'll need to craft your winning action plan.
- **Chapter 10** is your Million Dollar Blind Spots fiscal fitness health test, consisting of 20 questions designed to save your business;
- **Chapter 11** ties it all together with tools to help you realize your personal and professional goals, take hold of your future, and work from smart, real-world figures.
- **Chapter 12** is a bonus stress test you'll need to undertake the next steps in your organization.

Each section starts with a chapter on **core truths** that showcase what a C-level executive might erroneously assume everyone else on the organizational chart already knows. Then it puts theory into practice. Each section also includes **12 tips for working with each functional area**. Think of these tips as guidance on doing more with less within that function, and on communicating constructively about the stuff that matters. Along the way, in this book's expert Q&As, **eight experts in their field**, CEOs, executive directors, and business owners of organizations across the country, share their hard-won insights into managing and operating successfully given that resources are always limited.

Finally, this book is stocked with a solid personal coaching **resource section** to help you shepherd new million-dollar

opportunities into reality. Put these real-world tools to work on the three issues you feel are most important to achieve success and you'll move further away from the starting gate, and further ahead than the competition.

Think of the value you'll derive from selling more, further, faster, with more customer value, and with more engaged, motivated, and aligned employees. Think of the value you'll derive from accelerating revenue growth for a new product in the next year. This book shows how you and your leadership team can work together, possibly for the first time, to nail the numbers and fund your own way forward.

You define your millions. They can mean a substantial percentage of sales. In fact, if the company's sales are *only* one million dollars, you're really talking about thousands, at least in the short term. Pay attention to your numbers, use them to help you grow, and one day your sales will hit millions--or even billions.

When we discuss "the CEO" or "boss," imagine your boss's boss. If you adopt the frame of reference of your boss's boss, you will increase your alertness to the big picture, and help you deliver more salient information where it's needed. It doesn't matter whether your company is public or private, large or small. Apply these truths across the board, and save money.

My expectation is that you'll refer to this guide often in the future, particularly when you are evaluating business challenges from a variety of new and valuable perspectives. You'll unlock ways to turn your functional area into a dynamic engine for growth, drive revenue gains, and spark more profitable communication with your boss and your boss's boss.

Use this book to learn how to earn your seat at the table.

Communicate strategically

Each chapter reminds you how to communicate effectively, strategically, with those around you. (We've chosen the male gender pronoun, but we mean both men and women). The best way to accomplish that is to begin each day at work by putting yourself in your boss's position—and in his boss's position, to the best of your ability. Odds are your boss is thinking:

- I need to know...
- I don't know...
- Why aren't you telling me?
- How can I help you tell me?

Help them fill in the blanks. Help your business sell more, provide higher customer value, attract and retain top talent, account for profits and losses, and lead its industry. Be generous with information. Be curious about solving problems. Be brave in your approach to teamwork.

- Do you have the courage to share information?
- Do you have the creative curiosity to seek it out?
- Do you have the passion to power through fear, and shatter limitations?
- Are you willing to share the glory when you succeed?

Whatever your functional area, consider the following:

- You know your functional area of expertise. Do you know the core truths of other functional areas? Do you understand their mission the way you understand your own?
- Do you have the courage, conviction, and confidence to share your department's core strengths and to help other departments work with you, not against you?

- Do you believe you and your department have value to offer other departments?

You have more power than you realize. There is free money all around you—potentially millions of dollars beyond insurance. I'm looking forward to helping you find it.

Let's get started.

Chapter 1

Free Up That Million Dollars Beyond Insurance

You can't know everything, but you can anticipate your company's risks and plan to neutralize or manage them. You'll be rewarded with reduced uncertainty and sustainable business performance that your stakeholders can count on.

We face personal risk every day, from small decisions we make (whether to hit the snooze button on the alarm clock and potentially oversleep), to large forces beyond our control (whether to get in the car knowing that a number of people are tragically killed in motor accidents every day). Because they are substantially more complicated, businesses face myriad risks on a major scale, but the options you have to deal with them, both as a person and as a corporation, are identical. It all comes down to your making informed choices based on your comfort with risk. Think of it this way: An insurance company may pay on losses from a car accident, but you won't look to an insurance company to bail you out if you oversleep and miss an important meeting. You have to prevent or manage that sort of risk on your own.

In the bigger picture, because the people in your organization may not be communicating with each other and you about the right things, you face massive exposure to non-insured risk. This is what I mean by strategic blind spots. Managing that risk can easily net you \$1 million beyond insurance. What don't you know? Why aren't your people sounding that

alarm? This book prepares you and your organization to take charge of risks, many of which are opportunities in disguise. But you have to watch for them, talk about them, and be ready to take informed, decisive action.

At the back of this book, I give you a suite of resources you can use to test your approach to risk and growth, and to set dramatically successful action plans. Between here and there: a wealth of knowledge and best practices for you and your entire leadership team. Put these to work and save the day.

Understanding risk

In the enterprise, we discuss risks in these categories: compliance-related, financial, operational, reputational, and strategic. And there is a strategic system for identifying risks, deciding how many and what kinds we can live with, and deciding how many and what kind we wish to prepare for or eliminate. This system is called Enterprise Risk Management, or ERM.

Think of this discussion as a way to develop a “beer budget” approach to managing risk in your operations and avoiding multi-million dollar mistakes by using common sense versions of risk management tools and risk assessment tools. The need is great because haphazard or nonexistent risk management is all too common. Look at the lessons in the rubble: the cost to recover after failed strategies at Netflix and on Wall Street; Japan’s earthquake, tsunami, and nuclear woes; BP’s Deepwater Horizon debacle in the Gulf of Mexico and beyond. Each calamity presents textbook lessons on risk, and each affects lives, livelihoods, and reputations.

Did those in charge do what they could in the face of risk? How will history rate your performance, should your organization take a hit? Get ahead of uncertainty now. You may not get a second chance.

The world we live in

It's been an interesting period as globalization has increased foreign exchange risk and has led to high-profile control failures. Many of us remember two vivid examples: the shocking destruction of London-based Barings Bank in 1995 by a lone employee who lost \$1.3 billion of the firm's money in speculative investing; and the 2001 implosion of the

Think Fast. You Might Not Get a Second Chance

Talk about having the rug pulled out from under you.

Eileen was the new CEO of a high-tech company, the darling of the Street. They'd just raised \$100 million—the day before the dotcom crash. What to do? Eileen's new company's business model, which had made it extremely successful, had to change, radically, and fast: ninety days fast, or overnight, in business terms.

Step one: sweep the champagne off the table. Step two: haul out the financials and get a fast read of the strategy challenge: how to immediately and properly understand our product costs and capacity to adjust the business model. We had to change pricing levels to set and increase customer profitability. Giving the product away wasn't an option.

Our solution was elegant. We redefined the business offering into three separate options, each of which made for a more nimble and varied approach to service and price points, creating exciting customer value, while preserving opportunities for growth.

This required obtaining operational- and Internet-activity non-financial information, which had never been part of the conventional accounting system. It also required data from siloed business functions, all of which thought their department had the answer on core customer costing and capacity data (they were incorrect).

Outside, the stock price was plummeting after the recent IPO. Inside, we pored over real-world, accurate, and actionable data, and trusted that our plan would stabilize the business and save the company. It did.

Shortly thereafter, eBay acquired the company, winning a business technology it needed and at a fair price. We kept the remainder of the \$100 million.

We had the right numbers at the right time. We put them to work.

What are you missing or overlooking?

Houston-based energy, commodities, and services company, Enron Corporation, over a preventable scandal that also took down the Arthur Andersen accounting firm.

Moreover, new technologies complicate as well as simplify, whether on strategy issues or cyber terrorism. The enterprise faces risks and uncertainties that have less to do with its core mission and more to do with its own protection in order for it to compete. Consider the impact of Netflix's 2011 strategic decision to divide the company into separate physical and streaming divisions, mess with a winning brand, and raise prices in a brutal economy. They lost 600,000 to one million customers. To its credit, the company admitted that it dropped the ball in handling public relations and subscriber complaints.

The fact is, rating agencies, stock exchanges, institutional investors, and corporate governance demand senior executives to shoulder more responsibility for managing risks for the enterprise as a whole. And public shareholders reasonably expect stable, predictable, and positive financial performance. No, you can't know everything. But you have no excuse not to own your risk management.

In the following 10 brief discussions, we consider ERM, choice, and getting what you want.

1. What is Enterprise Risk Management (ERM) and why does it matter?

Entities exist to realize value for their shareholders, and management works to enhance, maintain, and encourage it in its strategy and execution of day-to-day operations. ERM helps management deal with uncertainty, giving them the tools they need to increase the upside.

To that end, ERM is a strategic program leveraging the attention and talent of everyone in an organization. Many

businesses invest in an ERM program office charged with focusing on governance, control, assurance, and risk management. But even smaller or growth-scale organizations can make similar investment, if not in staff, then certainly in vision.

ERM requires a broad and deep scope of effort that relates to an organization's business objectives. Its role is to see that resources and controls are in place such that a reasonable person could expect that it would meet the firm's objectives. It is designed to identify risk—potential events that may upset the enterprise—and manage it according to the company's risk appetite, deriving from management's philosophy toward risk. That appetite is reflected in a company's overall strategy. For example, a startup often has a greater appetite for risk as it seeks high returns where success is uncertain; a mature firm might seek smaller but more stable return for its investors.

2. What are the initial elements of an ERM program?

As with other strategies, ERM leadership must come from the top, where the firm will set its risk philosophy, culture, and approach. ERM establishes an overall risk management philosophy with the understanding that both expected and unexpected events will demand an organization's resources, and that it's always better to react swiftly, surely, and correctly than to flounder about in confusion and let others frame your problem. ERM covers everything from workers compensation claims to natural disasters.

Armed with ERM, management keeps its finger on the pulse of its organization's risk culture, and evaluates how the organization's plans and actions affect its risk profile. For example, a business unit may weigh an unusually risky venture. Through ERM, top management knows of the

opportunity and its costs—both planned and potential—and has evidence that the gamble will not undermine the firm’s overall business objectives.

ERM also helps management account for risk strategy when setting organizational objectives. It reflects the explicit risk appetite of the entity and informs in the aggregate just how much risk the firm’s management and board are willing to tolerate.

3. What other elements of an ERM program are necessary?

Identify your risk events (potential risk from unforeseen events associated with your company).

Plenty can go wrong inside and outside the enterprise to derail an organization’s strategy and prevent it from meeting its business objectives. ERM weighs how these incidents could combine and interact to affect the company’s overall risk portfolio. ERM harnesses powerful quantitative and qualitative methodologies to assess the probability and impact of each event, giving the smart firm options to follow before, during, and after times get tough.

It’s a dynamic process and remarkable to see in action. Thoughtful and accurate ERM weighs the company’s risk appetite, its cost benefit of response alternatives, and the extent to which a response diminishes the impact or likelihood of a particular risk.

Key to any ERM program is a system using internal controls, compliance with the separation of financial duties, quality control, and regulatory requirements. The company must capture and disseminate information in a form that allows individuals to carry out their jobs. For example, companies that mandate discrimination and sexual harassment avoidance training normally suffer fewer claims in these areas. If

companies maintain smart protocols in hirings, firings, and complaints, they'll enjoy big savings in avoiding suits and claims. Be methodical. Eliminate problems before they are problems.

The last critical piece of the puzzle is a robust, ongoing monitoring of program elements, with follow-up by management and periodic review as tolerances and other variables will change. If your internal controls work and you've educated your department heads in the critical need to share information (more on that in the following chapters) you'll have the necessary elements of an effective ERM program.

4. What is an organization's appropriate risk context?

Think of risk context as an entity's risk threshold. More risk than this and a particular action becomes "risky." Less risk than this and we deem the issue consistent with the firm's objectives. For example, within an organization, the risk context for a new venture can differ for each manager depending on where he sits. That is, the risk context for an organization's geographical manager may be one of slow but stable earnings growth; the risk context for a product line manager in the same organization may be one of high but fluctuating returns. Which should be the risk context for the new venture?

Neither the geographical manager nor the product line manager's risk appetite is compelling, in and of itself. The risk context for the new venture is of the enterprise as a whole, from the view of the shareholder, employee, or customer.

5. How does an organization develop a risk culture?

One size doesn't fit all in ERM. The organization's management team must get together on what constitutes risk and require buy-in from everybody in the organization. Your people's talent, commitment, and cooperation will bring your

ERM guiding principles to life. And you have to give your team the tools to succeed. You'll educate them, support them, communicate with them, and reward them for their risk-smart behavior. If employees embrace the risk culture, they can help develop risk practices within their spheres of expertise. From their unique vantage point, they'll be your eyes and ears in detecting and reporting hidden risks in routine operations.

Naturally, this initiative must come from the top. The board of directors is responsible for senior management establishing risk management strategies. It is critical to the development of a risk culture that ERM be articulated at the senior management level. Your board and senior management will cooperate to ensure ERM's implementation throughout the organization.

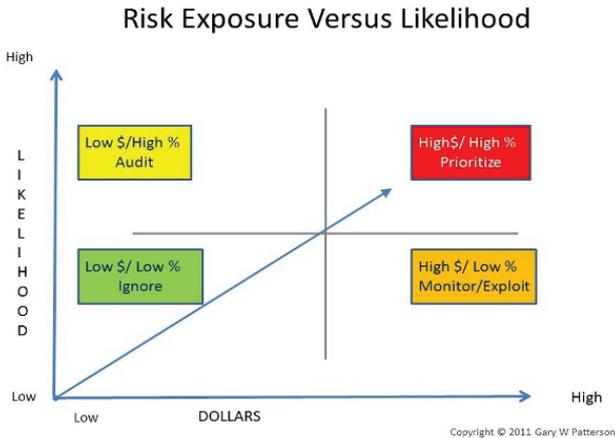
When a company is large enough to justify full-time internal expertise to develop, monitor, and manage risk, it will benefit from the establishment of a chief risk officer. The CRO, ideally serving at the executive level, fosters dialogue throughout the organization and takes point on compliance. Line management performs the initial risk analysis, and the organization implements ERM infrastructure. This trusted person will incorporate risk controls into business decisions to protect the company from inappropriate risk exposure.

Risk management culture does require investing in human and financial resources, but in terms of risk avoided, messages owned, and employees made to feel integral to the operation's success, you're bound to come out ahead every time.

6. How do we categorize potential risk events?

The risk assessment must reflect the entity's objectives and its risk appetite. A portfolio view, which considers risks in the aggregate for the organization as a whole, provides the context for placing particular risk events in a logical category.

Risk category has two dimensions: potential impact and likelihood of occurrence.



Using this graph (see fig. 1.1), let's populate the four quadrants using the following examples in a hypothetical corporation for risk events and a given set of risk dimensions:

- **High impact–high probability:** credit risk or product obsolescence
- **Low impact–high probability:** data entry errors or equipment obsolescence
- **High impact–low probability:** loss of communications capability or an earthquake
- **Low impact–low probability:** lost records or power outage at a noncritical facility

Categorizing a particular risk depends on the nature of the firm's business. For example, credit risk for a seller of earth-moving equipment may be high impact–high probability, while credit risk for a direct seller of children's clothes may be low probability–low impact. The impact, probability, and

the nature of a company's business all determine how we categorize a particular event.

7. What are the different types of risk responses?

Like people, business entities enjoy a range of options in responding to a particular risk. Decisions about risk response within an organization that has effective risk management are made in the context of a firm's risk appetite and a portfolio view of risks in the aggregate. Here are the four types of risk response from which a company may choose:

- **Avoidance:** Stop engaging in the activity that creates the risk.
- **Reduction:** Reduce the probability and/or the impact of a particular risk.
- **Sharing:** Spread the risk among other entities.
- **Acceptance:** Do nothing and subject the firm to the risk event.

Avoidance might include declining to bribe foreign officials, thereby precluding the risk of regulatory prosecution. Reducing risk includes improving quality control to avoid a product recall. Insurance and hedging are classical examples of sharing the risk. And if you fail to implement security practices against the threat of terrorism, you've simply accepted that risk.

Within ERM, each company has a menu of choices, appropriate for them, from which to plan responses to events in their risk portfolio. It's worth pointing out that doing nothing—accepting risk—is still a deliberate choice.

8. What about ERM and IT?

Information technology provides data, reports, and management information; and it belongs in any effective risk

management program, not just ERM serving high-tech firms. Think about it: how secure do you want the IT controls that are charged with processing your paycheck to be? Payroll security concerns have been around for so long that risk management normally works extremely well in this part of the IT world. Of course, IT reaches deeper into the enterprise than simply running payroll. Your company needs to protect and secure software code and confidential customer and process data assets, all well within the scope of a strong ERM program.

Moreover, when companies write their own code, they face trade secret issues. They must prevent staff or contractors from using or adapting proprietary code without permission. Developers must agree in writing to respect the firm's ownership. Some companies mark their software in ways that are invisible to you, but are clear as a fingerprint to them in order to protect from theft of their intellectual property and aid in its legal prosecution. If your company publishes proprietary code, consider such protection. If your company buys off-the-shelf or custom programming, review your contract indemnification.

Open-source code invites modification and comes from a culture of sharing; it presents its own set of problems. If the company modifies open code and now claims it as proprietary, inform your legal department. Challenges could emerge regarding your right to use a core piece of software. Companies also are obligated to limit access to vendor-licensed code by sharing it only with employees who are required to use it.

In addition to managing the risk associated with computer code, you must protect and secure confidential data.

QUESTIONS & ANSWERS

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Harvey Koeppel is executive director of the Center for CIO Leadership, an international, cross-industry peer community focused on the advancement of business competencies for technology professionals through peer insights and connections, education, and research. He also is president at Pictographics, Inc., a sole proprietorship. From May 2004 through June 2007, Harvey helped lead Citigroup, both as chief information officer and senior vice president of its Global Consumer Group.

Gary Patterson: Harvey, how did you manage finite resources and take best advantage of business opportunities in your tenure at Citigroup and elsewhere, and what lesson can we take from that and apply to our organizations?

Harvey Koeppel: Basically, at a high level, the strategy involved self-funding. Going back to the CFO or CEO and saying I need another \$5 million to do X, Y, or Z was often not a good idea. It's what we call a C.L.M., or a career-limiting move.

Anything new and significantly different we wanted to do, unless it was something that was so strategic and so innovative that it was going to change the landscape of the business (with all due respect, I don't think compliance and risk management fits that category) the goal really was about self-funding. If I wanted to spend \$5 million on some piece of technology to increase the strength of our encryption, or create better firewalls, or whatever it

might have been, I would look for opportunities to save money in once place, and typically took the savings and reinvested in the risk management function, or whatever it happened to be. This let us continue to do new stuff.

GP: How did that work? What did it look like?

HK: The technique generally was to look for savings through operational efficiencies or eliminating redundancies or whatever the case may be. If the amount was significant enough I'd generally cut a deal with the CFO and say, "Look, I'm about to save \$10 million, I'll give you \$7 million, but I need to keep \$3 million for my work in wherever." He was happy to get \$7 million back, and I was happy to not only improve the process, but also have \$3 million more to spend on doing something else better.

GP: OK, but Citigroup is just huge. Is that approach going to work for most businesses?

HK: Part of it was size and scale for sure, but I would not say that this strategy would not work in a smaller organization. Of course at some level, if you have five people in an organization, and you're trying to cut a headcount, you're talking 20 percent of your organization, and you can't really cut *half* a headcount; you've got to keep the other half. At some level of scale it just doesn't work; but I would say for any kind of higher-end, mid-size to large enterprise, that's a pretty common technique.

GP: Everybody wins.

HK: Self-funding, from an operational-save perspective, is a triple-win score, in that you've made something

better, you've reduced the cost, and you've funded your investment in something else to make something else even better. So yes, it's a win-win-win, and everybody's happy.

GP: What trips up executives trying to self-fund?

HP: There obviously are other ways to do it. Lots of people will rearrange the deck chairs on the Titanic: *I've got five people. I need one person over here, but my ten people are already allocated, aka, the definition of scarce resources, so I just steal one person from my ten and move him over here, which of course leaves a gap in wherever I took that person from.* The results are generally commensurate with the small-mindedness of the approach.

Generally that just slows down or kills some other effort in favor of doing a different effort, which is perhaps a short-term gain but generally leads to medium-term pain and long-term disaster.

GP: What's the solution? How do you cut with the least trauma, and best effect?

HP: Even though there was redundancy that could be eliminated, it's not like there was no impact, whether it was eliminating people or eliminating applications where we may have had five different systems doing the same thing. I figured that out we could really get away with only having four. There's always the need to socialize and get a buy-in of the people who are using the system that's about to be eliminated, and ensure that they were on board and had help adapting.

So yes: it wasn't like I could simply cut and slash and burn and take that money and go spend it. Obviously,

I had to accommodate whatever it was I was making the change to. Generally, that wasn't a terribly hard thing to do, and frankly, as my budget came from the lines of business, they were happy to save the money too.

GP: How can people on leadership teams help each other and the company to succeed?

HK: The real underlying dynamic, Gary, is to approach this process from a collaborative partnership perspective among the CIO, the other function heads, and the line of business partners. So it's not technology versus the business, or the business versus technology, or the CIO versus the CFO or any of that stuff; it was much more, Here's what we need to get done as an organization, let's align behind what those goals and objectives are as they meet the strategy. Now let's just go get done what we need to get done. If there are places where we're crossing either functional or organizational boundaries, let's be good corporate citizens and include in the conversations and the plans all of the stakeholders, and the beneficiaries, and anybody who might be impacted by whatever the change is being made so they're all bought in up front.

That way you get their full support for whatever it is you need to do, as opposed to stopping a system, and then a month later getting some irate e-mail from a president of a division who wants to know why his system just got turned off. That's a very different style, and as you can imagine, very different outcome. And it sounds kind of obvious, but unfortunately, a lot of people, and a lot of companies, don't operate this way.

GP: Does this all boil down to, “Do more with less”?

HK: You said it best in the way you asked the original question: it’s the economic opportunity of managing scarce resources and getting more done. I *hate, hate, hate* the phrase, “Do more with less.” It’s such a cliché for most people, and saying it feels sort of like chewing tinfoil. But it’s a cliché for a reason. If done properly, there’s the opportunity to create value without increasing the total cost, in the ways that I’ve described.

GP: So as a CIO, and in fact as executive director of the Center for CIO Leadership, what’s your take on the role of the CIO in owning the process of optimizing corporate economic opportunity?

HK: There’s still a pretty big chasm in the world of CIOs, and I think it’s also reflected across the C-suite, where people will talk about three or four different categories of CIOs based on their operating styles and all that. And frankly I think a lot of that is people trying to make a science out of something that doesn’t need to have a science around it.

At a minimum there is definitely the operational perspective, which is tactical: keeping the lights on and saving money; and there is definitely the enterprise leadership perspective, which assumes as table stakes the operational perspective. That’s the starting point as opposed to the end point. And the real end point is enterprise leadership. All the examples I’ve been giving you are examples of how a CIO, who is in that side of the equation, functions as an enterprise leader as opposed to (merely) a manager of the IT cost center.

GP: What does the enterprise-leadership-aware CIO know that his buddy, the IT cost center manager, doesn't?

HK: There are millions spent on the wrong technologies, that's certainly a true statement, no doubt about it, but what that really implies is: "I've spent my \$80 million; it didn't work. I pretty much wasted \$80 million."

What that doesn't account for is the lost opportunity value of what we could have created had our \$80 million project succeeded. And generally, that lost opportunity value would be defined in terms of another \$200 million in revenue recurring year over year, or a 5 percent increase in customer satisfaction that gets quantified in however many millions you want to quantify it, or increasing retention, or what have you. All too often people stop short around the failed projects.

Whether they've just wasted \$15 million—or \$15, forget the millions—it doesn't matter. The point is they lose sight of the fact that the lost opportunity often has a bigger cost than the dollars spent.

Prior to taking on the CIO role, Harvey provided consulting services to CitiFinancial, Citibank, and other Citi affiliates from 1986 to 2004. He was heavily involved in supporting the planning and integration of many of Citi's major acquisitions, including Travelers Insurance, Associates First Capital, European American Bank, and Golden State Bank. For more information, visit www.cioleadershipcenter.com.

Data on in-house systems needs to be encrypted and protected from hackers. Encryption makes the stolen data unreadable.

Understand the value of the data you're loading onto third party systems from an ERM perspective. Examine your company's agreement with the IT vendor regarding steps they're taking to guarantee promised privacy and confidentiality. Companies must be able to protect stakeholder confidentiality or face legal issues—and a devastating loss of confidence and reputation. Often the vendor insists on indemnification. Is this something that the company can live with? Make sure legal signs off.

Now consider information reports and sensitive information on your employees' computer screens. This is a job for security as well. And moving beyond your facility, the threat is stronger, as you're increasingly dealing with the virtual aspects of intellectual property—and risks in the cloud invisible to the human eye. ERM has its work cut out for it with IT, and making sense of and managing this risk is increasingly complex.

9. How can data analysis help detect collusion between buyers and vendors?

Collusion is a deep and widespread problem and a perfect subject for ERM. Today's business environment has increased the likelihood of employee fraud. Individuals are under financial pressures as never before. Companies are trying to do more with less, so you may see a failure in financial segregation of duties. And unseemly bonuses on Wall Street have prompted many line employees to figure, "Well, I may as well get mine."

Kickbacks are a major form of collusion taking place between procurement employees and company suppliers, wherein an employee receives cash or other forms of compensation in return for inappropriately influencing a company buying decision. This includes paying invoices for goods or services

never received, rigging bids, or providing the supplier with inside bid information.

Collusion is hard to detect. However, data analysis can flag unusual trends such as the number of invoices from a vendor over time, and the amount of dollars spent for goods and services from a particular vendor over time compared to previous periods. This type of analysis highlights scenarios that require further investigation.

10. How does media relations figure in ERM?

Media relations is a critical part of crisis management, whether the issue is a fire, chemical spill or other accident. In a high-profile crisis, the firm bears a significant public relations risk, as British Petroleum figured out in the wake of the Deepwater Horizon accident in 2010, after its perceived cluelessness and arrogance led to the company's leadership being savaged in public opinion. With 11 lives lost, 17 employees injured, 4.9 million barrels of crude oil flooded into the Gulf of Mexico, regional tourism and fishing industries left shattered, and marine and wildlife habitats damaged, the debacle is a textbook case study on how not to respond to reporters. Hint: Don't say of the victims, "We care about the small people," as BP's chairman Carl-Henric Svanberg did on June 16, following his meeting with President Obama. In the aftermath, BP's shareholders and employees lost billions in brand value.

Shutting the media out when a crisis hits is a big—and common—mistake, as rumors and speculation will always fill a news vacuum, compounding a stricken company's problem. At best, the company will look like it's sticking its head in the sand; at worst, it will suggest guilt and create anger that it will also have to deal with or accept, at increased risk.

It pays to be as transparent as possible, but you're not necessarily better off by discussing liability or insurance. As part of a community, both the company and the media have a role to play, and it's in the company's interest to help the media do its job, even if the initial story is embarrassing. If you do this well, the story quickly will turn to how effective you are at rising to the challenge.

The smart company will safely escort news organizations to the crisis site and detail the measures it is taking to deal with the situation. Remember: transparency often enables the firm to win favorable light in the media and in public opinion. Get out in front of the story. Help answer questions such as who, what, where, when, how and why. Tell the story of your ERM success: You have a plan, the plan is working, and this won't happen again.

Consider that everyone in the company is in charge of managing your company's reputation. You may have heard parts but not all of the classic example of Johnson & Johnson's Tylenol crisis and its public relation program's successful handling of the cyanide poisoning. One less publicized part of the story deals with the question of how many executives have the courage of J&J's James Burke to turn to the company's code of conduct for guidance. J&J's founder, Robert Wood Johnson wrote in 1943, "Put simply, Our Credo challenges us to put the needs and well-being of the people we serve first." Decades later, J&J's handling of that crisis remains a standard bearer for how companies should handle a crisis. To refresh your memory, try a Web search of "public relations" and "Tylenol Crisis."

In this book, I periodically suggest that maintaining the courage, passion, perseverance of your convictions enables you to share the core and operational strengths of your department in order to help other departments. That's it. If you've evaluated your company's position relative to these Top 10

Enterprise Risk Management (ERM) questions, you're set to shepherd your company through certain and uncertain risks—and live to fight another day. Your best defense is to be methodical and execute your best practices.

The Bedrock Truths of Finding Your Million Dollars Beyond Insurance

- Set informed risk choices based on your comfort level.
- Encourage your people to share information.
- Understand your risk categories.
- Avoid, reduce, share, or accept risk. But know why you're choosing that.
- Secure your IT under ERM to limit exposure.
- Fight fraud with data analysis.
- Help the media do its job during crises.

Coming up:

So you think you “get” your marketing department? Without meaning to, these dedicated workers may be hiding millions from you. To jointly help uncover that money, let's look under marketing's hood and see what makes this department tick.

Chapter 2

Understanding Millions in Marketing: What Marketing May Not Be Telling You

Despite what many might think, marketing and sales are two different animals. If the heart of business is sales, then the heart of marketing is the strategy to drive those sales. Yes, there's an exception: at many companies, marketing and sales are run as one department. That means they focus on market definition and strategy, pricing and promotion, and marketing communication and campaigns. We'll get to this in Chapters 4 and 5 when we discuss promise and progress in the digital advertising space.

There's a magic to marketing: an amalgam of art and science that turns the understanding of customer need and desire into cold cash: your profits. When the marketing department slips in selling its core strengths and bedrock expertise within the enterprise, it costs the team big money. Other departments must understand what marketing does, and how to leverage that information to work together more profitably.

In this chapter I'll walk you through marketing's turf, and get you up to speed on several key concepts and practices that will drive extra millions of revenue growth to accelerate scaling your business. Experienced marketers, use this chapter to help you consider how you can help break down functional silos and keep the boss informed, enlightened, and singing your praises.

Success in marketing begins in excelling at creating and designing the product or service you bring to market (*Will the dogs eat the dog food?*) Of course, today we have to do it faster, at less cost, and with better results that can be measured and monitored. Competition is intense. So marketing should analyze the market and competition, and devise the statements that explain why our widget is better for the customer than the other guy's; or why the customer will be cooler, hipper, and happier with our widget. Why is it to the customer's advantage to go with us? Why are we the brand he wants to identify with? That's marketing.

How effective are your marketing people at optimizing salespeople's time in front of prospects?

Ansoff Product/Market Matrix

Experienced sellers are familiar with the relatively new Ansoff product/market growth matrix, which orients organizations to think about revenues depending on its offerings. It yields solutions for marketing new and existing products in a new or existing market space. It's powerful and straightforward. The Ansoff approach lets businesses plan progress on paper before committing to the real thing—and spending substantial amounts of money. This approach helps find the strategy that presents the least amount of risk to your organization. So whether you are a young corporation or a titan in your field, consider the benefits of Ansoff to tailor your marketing approach to target customers.

Let's get more visual with the following diagram (table 2.1) of the Diversification aspect of the Product/Market Ansoff matrix.

		Products	
		Present	New
Markets	Present	Market penetration	Product development
	New	Market development	Diversification

After you consider where you stand in these relationships, weigh these questions (table 2.2)...

<p>Existing Product/Service to Present Market:</p> <ul style="list-style-type: none"> - Does this offering require increased consumption from customers, or are you taking market share from competitors? How? - How do you attract existing customers? Why would they come? - What might competitors do to try to stop you? 	<p>New Product/Service to Present Market:</p> <ul style="list-style-type: none"> - Is this something that customers want? - Do they need it? - What does your offering replace? Why is your solution a better choice? - How do you communicate your value to customers? Why should customers believe you?
<p>New Product/Service to New Market:</p> <ul style="list-style-type: none"> - Is your offering really new or are others offering something similar you just don't know about? - Has it been tried before and abandoned as unworkable? - Who are your customers? How do you find them? - What do you say to them when you find them? - How do you define your customers' needs? - How does your product/service satisfy those needs? - How do you prove those customers exist? - How do you prove your product/service will satisfy customers' needs? 	<p>Existing Product/Service to New Market:</p> <ul style="list-style-type: none"> - How do you prove that you're needed where you want to do business? - How do you prove demand is waiting for you when you get there? - Now that you've established the market, which competitors are set to follow with the same product at a lower price and better service? What will you do about it?

Even after you develop your strategy, you're in for some heavy lifting. (And the rewards that brings.)

The Art of Bootstrapping

We're not picking on marketing or sales if we say that in today's business environment, and for the foreseeable future, the mandate is, "Do more with less." One of my clients keeps a great sign outside his office door that basically warns visitors what they had better ask themselves before they ask him for money:

- Do you really need to buy it?
- How long can you wait before buying it?
- How can we get it cheaper when you have to buy it?

Notice he's not saying you *can't* have it, or must reduce quality, or don't ask. He's simply driving home the need to make the best use of the company's money. How can your business inspire employees to care as much about cash efficiency?

An entrepreneurial mindset can exist in companies of any size. In fact, it is so prevalent in larger companies that the phenomenon of acting like an entrepreneur inside a larger organization is called "intrapreneurship."

Bootstrapping means doing more with less. Regardless of your company's size, it must excel at this. Young and scrappy entrepreneurs bootstrap as a matter of necessity; middle-market and larger companies must not forget these early survival lessons.

Marketers have always had to dig, scratch, and claw out their budget, so let's acknowledge them as entrepreneurs. To the extent that your employer sees marketing as primarily an expense center, learn to develop some numbers to back up the results of your work that help demonstrate marketing return on investment. After all, the seat at the leadership

table goes to marketers who think strategically *and* can talk about the numbers accurately and confidently.

By now you should be paying attention to ideas and steps that will help you survive the critical, capital-deprived days of your enterprise, and make note of techniques for proving your business case and growing yourself sales.

Consider that your boss's boss is an investor in the strategy and tactics *you* propose. He or she is investing in financing that other people also want a piece of as well as valuable time—their own, their peers' and their subordinates'—in implementing your proposals. Along with mastering this capital expenditures (CAPEX) logic, follow up on how well the project actually turns out so you can learn more and refine your approach and execution for better results. People want to trust you with resources. Help them to do so.

We can apply bootstrapping to our business models. These are some characteristics:

- Low up-front capital requirements
- Short sales cycle (less than a month)
- Generally payment terms (less than a month)
- Recurring revenue
- Word-of-mouth advertising

Managing for cash flow means passing up sales that are profitable but might also take a long time to collect, and it means always viewing the money used to prime sales as if it were your own.

Once you've got money coming in, then you can safely invest more on longer-term initiatives, and invest months of stately planning and analysis in other projects

Are you bootstrapping? You should be.

Market research: Build a Bottom-up Forecast

No bootstrapper in his right mind would build a top-down forecast by calculating how much of a market one needs to succeed. Typically, entrepreneurs start with a large number (e.g. “the global market for widgets is \$100 billion”) and extrapolate projected sales down from that figure. For example, let’s say you want to crack the Internet access market for China. Here’s a pie-in-the-sky top-down plan, which would make the CEO, board of directors, or banker cringe:

- China’s population is estimated at 1.4 billion.
- 20 percent of this population want Internet access.
- We will secure 10 percent of that potential audience.
- Each account will yield \$240 per year.
- Size of the market is $\$1.4 \text{ billion} \times 10 \text{ percent addressable market} \times 20 \text{ percent success rate} \times \$240/\text{customer} = \$67 \text{ million per annum}$.

Not a bad haul. Of course, it’s total rubbish. No business would aim for such a return without proof customers will buy from them at all. Most experienced leaders see through it as hype. Admit it, though, you have seen versions of this approach in the wild. I know I have.

Bootstrappers don’t build top-down models, but rather bottom up-models, beginning with real-world variables:

- For simplicity, assume the number of complete phone pitches a telemarketer can make in one day (30).
- The number of prospects who qualify as potential customers is 30 percent.
- There are 240 business days in a year.
- A telemarketer can close sales on 10 percent of qualified prospects.

- $30 \text{ calls/day} \times 30 \text{ percent sales prospects} \times 240 \text{ days/year} \times \$240/\text{customer (noted earlier)} = \$500,000/\text{annum/telemarketer.}$

A team of 10 salespeople, according to our bottom-up model, can thus produce \$5 million in revenues. You can argue the conversions and assumptions, but it's possible to settle on proof. This model offers real-world projections for cash flow and costs (number of prospects, number of salespeople, and so forth).

Are you looking at your problem top-down or bottom-up? Which do you think is more realistic?

Use Prototypes as Market Research

If you have a good business idea, prototype a small model of it and see if it works. Remember the success of Pierre Omidyar, founder in 1995 of eBay, which in 2011 boasted annualized operating sales of \$11 billion. This business became a multi-billion-dollar business because Omidyar believed his company could make money by creating a community of local buyers and sellers, an idea he scaled up from flea markets, garage sales, and newspaper classifieds. Omidyar's community grew and in short order, users all over the world were hooked.

Prototyping made it possible. Omidyar prototyped his idea for a direct person-to-person auction on his own computer, and launched his enterprise from his apartment using free Web space. He collected a small fee for every transaction. The design was clean, straightforward, and bulletproof. Then he moved to a working demo and turned it loose on the market to prove it worked, got financing, and ramped up dramatically.

The business model was simple:

- Find a strategy that brings buyers and sellers together with a common objective.

- Create a method generating a revenue stream from transactions between the buyers and sellers.
- Create operational features that help buyers and sellers readily commit in a secure environment.

Your new product or service might also capture lightning in a bottle, but odds are you're not going to know what the buying public has an appetite for until you commit some resources. During these times, conventional market research falls flat. You have to run some small market test.

Your wisest choice: Take your best shot with a prototype. Go to market immediately. Sell something and learn quickly with customer feedback, positive and negative. Revise as needed until you have what real customers will buy at a profit. Otherwise, the market will cheerfully pass you by while you plan, wait, cogitate, seek advisors, and hold out for ideal circumstances to launch.

This ready, fire, aim and recalibrate is where marketing excels.

The expected outcome of this “get going” principle is a first release of a product or service. It will not be perfect, but revision based on customer feedback means that the next round of customers will have a better experience than the first. Speak to successful business people. You'll often learn that their biggest regret likely was in waiting as long as they did to get products or service into customers' hands.

The benefits of getting your product or service to market rapidly: immediate cash flow and real-world feedback. More than that, you have something to *talk* about. Now marketing people can write about real world experience. Some customer who adores you will welcome you to write a case study. Some media channel looking for something interesting will give you visibility if you pitch it to its target audience.

Some Research Required

What if your product stumbles? How can you limit risk in this test market?

- Does your product or service, at this stage of development, leapfrog or differentiate from the competition?
- Can you test market into a remote area or segment to limit fallout?
- Do you have a tolerant and understanding customer group of willing guinea pigs (as is arguably the case with Apple's loyal early adopters)?
- Does your product or service meet most of the needs for most users?
- Have you done enough "in vitro" testing (for example friends, family, colleagues, alpha and then beta) to help you figure out what the real world thinks?

How to Analyze Your Industry

Regardless of an entrepreneur's size or reach, when developing business plans, each must establish the size of their markets. Avoiding unrealistic projections is a major challenge. Entrepreneurs must state in their plans a realistic projection of their addressable market. Convincing, documented, real-world numbers carry more weight than do general/broad industry figures.

The challenge for you is to temper your enthusiasm, particularly if you see niche and developing markets as a huge opportunity. You want to establish yourself as a market leader. You may be at philosophical odds with your board of directors, which has seen too many risky adventures in new markets. Boards are usually more comfortable with a proven medium-sized market than an untapped niche.

To answer those concerns, conduct a market analysis, often referred to as market potential. Say you're a sales person who believes in the potential of the general market for pizza mini-ovens. Food is a highly visible and dynamic market, offering the highest employment potential of any industry. You need to peel back the onion of potential to get at the core addressable part of the market, which is genuinely accessible to the business.

Who else is competing for your customer? What products and services do they offer? What are alternatives for your prospects? Your research should uncover who else may enter your niche marketplace, and how long it would take them to arrange production, supplies, and distribution. Depending on your nice product, consider patent protection.

For Business Planning, Competition is Good

How do you define competition? Does it align with your internal investor's (your boss's boss) views? Investors define competition as any service or product that a customer can use to fulfill the same need(s) as the company fulfills, including businesses that offer like products, alternate products, and other customer options—for example, carrying out the service or constructing the product themselves. What are the alternatives for your prospects? Don't forget the customers' option to do nothing.

Direct and Indirect Competition

A business plan has to take into account a business's direct and indirect competitors.

Direct competitors are the business's competitors, who are trying to attract the same target market. **Indirect competitors**,

QUESTIONS & ANSWERS

Keith Kantor |
CEO, Service Foods, Inc.
Norcross, Ga.

Keith Kantor, PhD, is owner and CEO of Service Foods, Inc., a middle-market health and wellness community whose three brands, Service Foods, Blue Ribbon Foods, and Southern Foods at Home, employ some 200 people. Together they provide gourmet, all-natural food that is both healthier and better tasting than the food many of us can find at a local grocery store, and deliver everything to customers' homes free of charge.

Moreover, Service Foods routinely wins plaudits and awards from the likes of the Natural Product Association, Ernst & Young, Business Leader Magazine, Georgia Trend Magazine, and the Atlanta Business Chronicle, who tout the company's excellence in entrepreneurship, industry leadership, and smart growth.

Gary Patterson: Keith, you're a retired Marine Corps officer used to getting things done directly, efficiently, and effectively. Your success in running your company has freed you to start working toward reforms in the U.S. healthcare industry that your blue ribbon advisory report says would save lives—and \$333 billion within 10 years.

Keith Kantor: It's staggering. Those savings amount to nearly 15 percent of our total health-care costs of \$1.8 trillion. As you can see if you go to the report [available by PDF at Service Foods's website], these savings come from simple, non-controversial methods. That doesn't even count the large savings to be gained from reduced absenteeism and higher productivity at work.

GP: Is health “baked” into your culture at Service Foods?

KK: Healthy living is the main focus at Service Foods, and it’s not just for our clients’ sake. We know how important it is for everyone to live a healthy lifestyle. We see our health and wellness programs as an investment in our employees and their families. We’re all working together to improve the health of America, one family at a time. We were just named *Atlanta Business Chronicle’s* Healthiest Employer of the year for the second year running. We’re a great place to work and have no turnover.

GP: You promote your company as “green,” a claim to corporate environmental responsibility you can make confidently after subjecting yourself to an independent audit that helped you become 100 percent carbon neutral. Was all that work worth the expense?

KK: Absolutely. This was covered in the press: despite the recession, following these investments, we achieved a three-year revenue increase of 306 percent, and added 60 new jobs in the Atlanta area. We didn’t do it just to be altruists; going green—I wish more businesses understood this—is a powerful marketing and sales lever. The response from customers was so enthusiastic that the additional volume actually offset any extra cost and made our product slightly less expensive. What I thought would be a 5 percent *increase* ended up being cost-neutral, or even pushed costs down 1.5 percent. In this industry, that’s excellent.

GP: How do you lead this company? How do you solve problems?

KK: We’ve broken the company into several teams, akin to fire teams in the Marines, and these are small, fast, and

flexible. Every week we have a team meeting, and the concept is to come up with solutions to any problem. But we say, “Don’t tell me only the problem, tell me your solution.” The people on the front line are the ones who are in the best position to come up with solutions, because they see what works. I review, as CEO, all their notes. We look at the choke points, what you’re calling blind spots, and list these on a board. Which ones come up the most? What are, say, the top three? We reward our people for avoiding choke points through team bonuses, with contests, because that tends to free up time, which is money. A lot of money.

For more information on Service Foods’ Blue Ribbon Advisory Panel:

Recommendations to Fix and Lower Costs in the U.S. Healthcare System (2012), visit www.servicefoods.com/my_health_info/blue_ribbon_advisory_panel_recommendations_to_lower_healthcare_costs.pdf.

in contrast, are competitors who are trying to attract a different target market, with different products and/or services, or are trying to attract a different target market with similar products and/or services. Consider both, because your prospects may turn to either set of competitors, particularly if your competitor has an established mind share.

Note that successful entrepreneurs don’t trivialize the competition: they speak solely to clearly present their point of difference in the market, and, eventually, to define their market. That’s what’s so nice about B2B marketing: you’re solving problems, not trying to create a need you can fill with your product.

Investors aren't fools, at least not the ones we're talking about: competitors who have been in the market for some time have already proven their capacity to build market share; they will vigorously defend their market share, and have the business advantages of the high ground.

The most important areas of a market analysis are the business's competitive advantages over other suppliers, and competitors' identification of how these can be converted to actual wins as far as market share. Whereas a newcomer may face some barrier to entry, an incumbent needs to think about protecting their market share.

Sound financial assumptions and projections based on documented industry numbers—not naïve assumptions—communicate operational maturity and credibility.

Let's take a page from Mary Cole of B2B Technology Marketing, who seems to have a knack for pulling in accurate, solid numbers. You could spend thousands of dollars for a research study on your target market. Or you could visit a business library and research it yourself, with a business librarian's free assistance. Librarians are experts at finding things out, and they know which databases will yield the information you need and how to access them. You can gather this information at the library or at home, depending on database licensing agreements.

From directories and company information to market research to international resources and newspapers, periodicals and grants, business libraries are plump with information you can leverage for free, starting today.

For her part, Cole is a fixture at the Kirstein Business Library in Boston, which she describes as the best free research facility for entrepreneurs in eastern Massachusetts.

Market Power and Margins

Everyone would love for his business to enjoy fat operating gross margins. So would his banker. But financial projections and assumptions are a minefield for overly optimistic leaders.

If you are a manufacturer, or seek to establish a manufacturing business and show, say, 50 percent to 80 percent operating margins, you may find that investors will question your premises. It is relatively easy to access the operating margins of public manufacturers anywhere in the world, then simply go to the financial accounts and note the margins. They fall far short of 80 percent.

You can learn much about presenting your business by reading the published financial accounts of public companies in your market. The biggest challenge is that a public company generally extends into more markets with more products than private companies. This makes it difficult since you're comparing apples and oranges, but it's better than nothing. You need to measure yourself against something in the real world.

The Demands on Working Capital

A business plan to a savvy investor is like an X-ray to a surgeon. And as the surgeon learns precisely where to operate by reading the X-ray, so, too, does the CFO, CEO, and board of directors read a business plan to find an emerging business's promises and pitfalls.

They look for obvious clues. Is there really an opportunity here? Can these people pull it off? Will the cash flow meet projections?

Financial projections such as revenues, profit margin, and earnings can mislead, although not necessarily intentionally. Readers generally assume that projections are based

on optimistic scenarios, so they expect to see the basis for assumptions. These bases should refer to actual sales in like situations where possible. If they are simply guesstimates, then that should be based on reliable assumptions. Business plans should provide in an appendix a description of the source of the data (and come equipped with illuminating footnotes). Again, documentation inspires credibility, and credibility inspires funding.

For example, 25 percent per annum growth in revenue might be a fair assumption for years one through three, but over ten years? Not so much. Investors and boards will call it unrealistic.

Highlight any shortfall on capital and plans to address them.

Validating Assumptions and Projections

Financial assumptions are the screws that hold the business case together. Make sure they're feasible. Let me repeat that:

The Power of a Question

Ask the wrong question and you might get the right answer, but for the wrong reason, and you'll be out of business in short order. Learn to ask the right question. That's golden.

Charlie was chairman of the European manufacturing arm of a publicly owned Fortune 500 manufacturer-distributor of industrial and building products. They'd been in business for more than a hundred years and were overdue for updating. Charlie, in his fifties, brought a strong engineering background and an MBA from a top school. He was tasked with moving his \$150 million division from loss to profitability quickly and in a turbulent market.

It was a risky situation. It was just a matter of time before the market turned downward again, and his reporting system, looking

ever backward as it did, was ill-equipped to help him lead through tough times. Charlie's options appeared painfully limited.

Why? Manufacturing was almost blind on its supply chain. Sure, this company could, and did, create and file timely SEC reports, but if you'd asked them which customers or products were the most profitable, they had no idea. And it was going to cost them. Their accounting systems excelled at telling them where they had been, but failed at telling them where they were going until they got there.

How could Charlie essentially move his division beyond a Luddite society to a modern, savvy, and intelligent information system that let them look around corners? Or uphill? Or over the horizon?

We quickly created a way to accumulate useful product costing and job cost information, and our system immediately began feeding us essential, actionable reports on product winners and losers. We hauled butt back to profitability. It worked out well. The company is sailing into its second hundred years, riding a wave of intentional, not accidental, results.

Make sure your financial assumptions are feasible and include:

- Conversation rates
- Operating margins
- Headcount

Investors Want to See an Opportunity, not a Biography

What is your business opportunity? When an investor determines whether an idea has merit, he will generally want to fall back on industries and businesses he understands, and often will eschew poorly defined opportunities that require a leap of faith. Here are the essential features of a framework for determining and assessing an idea:

What is your market data?

- How big is the market? Local? Regional? Nationwide? Worldwide? What are you aiming for?
- How you define your market will depend on the problem you solve and the customer's other options.
- Know your competitors inside and out. What do they sell? For how much? How do they sell, directly or indirectly? Through which distribution channels?
- How can you reach your market? Where do these people go to solve their problem? Can you get in front of them at the time they need you?
- What worked 20 years or so ago probably won't work today. Today you need to be found online. What's your strategy for meeting your customers where they hang out?

How easily can someone find market data? A viable market question requires answering the size and potential of the market, and whether in addressing this market, the business can make an attractive return on investment.

Provide an honest description of all the known risks involved. When one opportunity is too complex to attack or understand, then it will probably also be too difficult to execute.

Not a Huge Market, Please

Here's how to turn off your boss, internal and external investors, lenders, partners and suppliers: Tell them you have no competitors and that you're going to be the market leader in an \$800 billion industry.

Again, there's nothing wrong in relating your business to a successful existing business, but a perennial and annoying characteristic of many entrepreneurs is that they present

large, generic market sizes as if that alone should get investors excited. It won't.

If you're offering a new type of product, the best you may be able to do is cite the market base you'll be selling into. You may not be able to predict what percentage of the market will bite. You know only so many are prospects, but how many of them will care? Hit the numbers from the bottom up. Triangulate the information from a variety of sources. Alternatively, if you suggest you're first in and best dressed with no competition based on your unique business case, well, is that a good thing? Is this really a comfortable position for you? Who really wants to be first? OK, it's politically incorrect, but vivid and generally true: You can tell who the pioneers are; they're the ones with the arrows in their backs.

If there are few companies in a particular market space, how can you determine that a market may just not exist, or determine that customers simply won't pay enough for the product or service for you to make money from the venture? Or even worse, customers have the option to do nothing? On the other hand, when there are already established companies in the space, it should be seen as a lower risk entry—one where others did not fear to tread. Then the issue becomes differentiation.

Investors want to see value, and they'll see through claims of large generic markets that are impossible to convert into customers.

Addressable Market

In our view, entrepreneurs should define their potential in terms of the addressable market: the actual percentage of the available segment.

For example, let's say you want to attack the pizza market. You've developed a super "mini" oven that offers advantages

over larger, more expensive and inefficient ovens. Your oven is tailored to the more contemporary market for thinner (healthier) pizza, and can be fitted out in traditional restaurants, cafes, and shopping malls.

As already noted, the kind of modeling that starts with a large number and works down to extrapolate projected sales from that figure is generally of little use to an investor. If the market opportunity is attractive enough to satisfy your capital expenditures requirements process (CAPEX), it's better to build a bottom-up model.

Let's look at the pizza mini-oven case (hypothetically):

- There are 60,000 cafes and restaurants in your part of the United States.
- A salesperson can make appointments to see 25 potential customers in a week.
- These potential customers have already been qualified by a telesales phone call.
- There are 45 working weeks in a year.
- Five percent of the sales calls will convert to a purchase order within six months.
- Each sale is worth \$8,000 to the business.
- The business founders could expect \$225,000 in revenue in first six to nine months.

At that point, it's possible to see whether sales would increase sufficiently to justify your business moving forward on this product and if this would deliver an adequate profit margin for your overall costs and expenses.

Now you're in business.

To help build that business and exploit those missing millions in marketing, the next chapter will provide a dozen secret

tips that are actually focused tactics to ensure you exploit the full benefits marketing can provide all areas of the business.

Remember, the key to finding million-dollar blind spots is to ensure marketing provides maximum value. When the entire management team understands marketing's core truths (see below), marketing has earned or kept its seat at the table.

Bedrock Truths of Marketing

Spend money wisely.

Who is your customer?

Will they buy your product or service? Will the dogs eat the dog food?

Document, test, and validate assumptions.

Where does your customer go to solve their problem? How can you be sure you're there waiting for them?

Be flexible and embrace change. Marketing is a process.

View your boss's boss as investing money and people's time on your marketing plan recommendation.

Chapter 3

Uncover Millions in Marketing

Now that the full team has a grounding in the marketing department's bedrock concepts, let's focus on unleashing marketing's hidden millions. Our key goals are meeting customer expectations without giving away the store and retaining valuable customers.

Here's what I mean by valuable customers: It costs five to eight times more to gain a new customer than it does to retain one you already have. In a cash-strapped world, successful organizations know the value of holding onto existing customers rather than having to sniff out new ones. A word of warning: You won't get credit simply for knowing that you should do these things. You get credit for consistently implementing programs that follow these bedrock principles. Tweak these suggestions for your situation. Whatever you do, don't let your million-dollar blind spot be losing customers over satisfaction issues.

Marketers, highlight sections of this chapter to give your peers insight into propelling business profitability from your point of view. Non-marketers, guess what: you, too, are responsible for successful marketing. Apply these tips to help grow your bottom line.

Know the Score

Raising average revenue per customer depends on making products and services that people want to keep on buying. There are lots of ways to retain customers, but many of them are difficult and expensive; and we're not looking to spend money in this chapter, but save it. To that end, here are 12 low-cost "secret tips" for your use in improving your organization's return on effort, with examples:

Tip 1: Know what your customers want

It sounds obvious, but it's too often overlooked or gone about improperly. Find out what your customers really want. Don't just trust that they'll tell you the full story in a feedback form (they often ignore those or throw them in the trash). Special tip: if you can find out in a live interaction, even better. You need to be able to restate the customer's problems, state available solutions, and understand your cost of doing nothing.

—With clients, ask them often how things are going and what you can do to improve.

—If you're a brick and mortar operation, meet your customers at the front of the shop, or assign someone friendly and alert to do this for you. Walmart stores put their best foot forward at the door with their greeters. Get to know your customers. Who are they? Why did they come today? What are they looking for? Make that good impression. Make that valuable connection.

—If you're a Web-based business, you may well have to rely on feedback forms to glean customer details. Don't just read them, follow up with a telephone call or Twitter hit. Feedback forms aren't ideal, as I say, so you have to motivate your

customers to use them, and maximize the value of the feedback you do receive.

One way to incentivize your customers to provide feedback is to offer them an incentive. For example, enter each respondent into a drawing for \$100 or a free product in exchange for providing feedback. That's a small investment on your part, and you might learn a tremendous amount about how your business is doing and what your customers want.

To mix fun and function, host a mixer after hours to thank customers for their patronage. Serve appetizers and wine, and encourage them to network (this is an added value you are creating for them, incidentally). Not only will you have a chance to learn what people think of your business, your offerings, service, employees, and so forth, you will be able to form personal relationships between your employees and your customers. We all prefer to do business with people we know. You'll gain valuable intelligence you can put to work right away, and you'll forge lasting customer bonds.

No matter your approach to obtaining feedback, are you listening? Failure to listen is a mistake many leaders make, one that dooms organizations. Customers want to provide you with critical facts to improve or even save your business, but you have to listen for them. Small and (to you, perhaps) seemingly unimportant aspects of your offering could be the reason why customers stay away in droves, bad-mouth you online, or take a closer look at your competition.

If you're alert to what your customers want—if you adjust your products or services based on real-world feedback—you'll see huge gains in your ability to keep customers at minimum cost.

QUESTIONS & ANSWERS

Mary Cole |

B2B high tech global marketing consultant

Greater Boston area

Mary Cole is a business executive whose background includes Digital Equipment; Prime Computer; co-founding a successful software development company; angel investing; five years of financial services industry experience; and marketing and strategic development consulting to American and international corporations and universities.

As she explains, her interests lie in developing profitable markets for high-tech products and services by listening to prospective market participants, and laying the groundwork for what she calls “self-selecting prospects who turn into happy customers.”

Gary Patterson: Where do your clients seem prone to blind spots, and what can they do about it?

Mary Cole: As a consultant, I encounter people coping with a subject they're least competent in. Otherwise they wouldn't have reached out to me. So I see a lot of blind spots. In my experience, when people try to address unfamiliar issues, they often come at it with a blindness characterized by their true expertise.

Here's an example: I worked with a couple guys I know who had been great executive salesmen in another life. They formed a company, looking to make a lot of money out of e-mail management software for organizations. They wanted me to help with “marketing.” And my initial response was, “Let's talk to some people similar to the people you would sell to, and let's get their view of the

problem that you solve. Let's understand their hot buttons, their pain points, and get a feeling for the product space in the real world."

So we did this a couple of times, and it became obvious that [my clients'] concept of marketing was [to find] somebody who could introduce them to potential customers. They didn't understand that marketing involves leverage, and sales involves the one-on-one gathering of revenue. Marketing always supports sales, but because their background was sales, they did not understand the leveraging component of marketing.

Immediately after hearing people describe their organization and what they were trying to do, my guys went into sales mode. They stopped listening. And they really never understood that that was totally inappropriate. We were there to gather information, and of course it caused me a bit of pain. These were people I knew, who trusted me, and I had not intended to set them up for this type of onslaught. I had requested meetings so we could learn from them, and what they got was, unfortunately, a hard sales pitch.

Sometimes as a consultant, you don't always have a perfect match with the client. You would like somebody to call and say, "I need this this and this done," with a sense that your client understands what marketing is and what it can do for them.

As you say, Gary, there are these million-dollar issues, these black holes that people are not aware of. If you're a marketing manager, it is your responsibility to make sure that other departments understand what marketing does. Marketing managers must also make sure that the

company's marketing people understand what they bring to the party, what other departments bring to the party, and how the organization benefits when departments share information.

For example, marketing provides sales with the general market picture and specific leads; sales provides marketing with feedback on competitive evolution, on what worked, and what didn't work. It's all teamwork.

Mary Cole is on LinkedIn at <http://www.linkedin.com/in/marylcole>, and blogs on marketing, politics, investments, and life at <http://euonymous.wordpress.com>.

Tip 2: Create anticipation for new products

When it comes to creating consumer need and anticipation for new products, you don't have to look beyond the shining example of Apple, Inc. Apple managed to sell more than 300,000 units of its new iPad in the first day of sales alone, and customers downloaded 250,000 eBooks that day from the iBookstore. Over the first weekend, Apple shipped a whopping 700,000 iPads. How? The company created a pitch of suspense so fevered people camped out in lines just for a chance to touch the latest iThing. Marketing hype, not necessarily just engineering, fed this desire, loyalty, and revenue.

You can do it too.

We've seen Apple's strategy applied time and again in the business world to retain customers, and to encourage them to buy the next in a series of products. Take the example of the movie industry. It convinces customers they must see the director's next installment as soon as it comes out. Regardless of the movie's quality, if the teaser trailer is phenomenal, people will be buzzing about it all over the Web. Seeing the

film is inevitable, the gross receipts are tremendous, and that fuels the sequel.

Studios and publishers generate excitement for new products or services by spreading the word long in advance of the release date, and making preproduction itself an object of intense speculation in blogs, YouTube, Twitter, Facebook, chat rooms, and the press. Sneak peeks, Easter eggs, pre-orders, and exclusive content make the product release a force in the potential audience's lives. If you can create anticipation for your products and services, you'll keep those customers coming back. One proven technique is to leak tantalizing suggestions about the product/service, but hold back the details, as speculation leads to buzz.

Tip 3: Deal with customer complaints promptly and decisively

No one likes disappointing a customer, but valid complaints actually aid your business as they tell you what you are doing wrong—and they're unsolicited, to boot. Complaints are much more valuable than compliments; they tell you specifically how you can improve. Customers who give you this sort of feedback are worth rewarding, as they could save you thousands or even millions of dollars. You may consider providing a small token of your appreciation to complaining customers. If you don't, they will be less likely to come back and visit again.

Remember: Better to have your customers complain to you than to have them complain to each other or to your competition. Research indicates unhappy customers tell many more people their impressions than happy ones do. Wouldn't you prefer that they said, "I was really unhappy with the quality of a part, but then the manager gave me a refurbished model that did the trick, so they really do listen." This sort

of comment is likely to retain customers and burnish your reputation.

Customer complaints are usually specific, which makes them easier to address. You'll have to follow through to ensure your solution hits the mark, and this gives you your best chance to end that transaction on a high note. The more you respond to customer complaints by fixing the basic organizational or product problems, the less you'll be giving out as compensation, the more customers you will retain, and the more profitable your business will be.

If you can't fix the problem right away, be sure to contact your complainer and let him know your plan for fixing it—then tell him what you did to meet his needs and thank him for working with you patiently. Consider that almost all industries have issues that periodically create valid customer complaints. The perception of how you solve those problems can make or break your image in the marketplace.

Tip 4: Unleash the power of FREE

As they say, you've got to give to get. Put that maxim to work in retaining customers. Everyone likes to get something for nothing.

Most software companies allow prospective users to try their full or a limited version of their product for free for a limited time before requiring them to pay for a license. By the end of the trial, the customer may have gotten so attached to the software that he'll come to see it is his—after all, it's already on his computer, performing tasks he likes. Paying for it at that point becomes perfunctory.

The same goes for upgrades. You can offer upgrades to hardware or software products as a free trial, giving customers the latitude to decide to buy in after they're comfortable with the product. As you produce upgrades and add-ons, you'll

see your customers coming back for more. Conveniently, this touches back to tip 1: Know what your customer wants. Use the trial period to gauge your customers' interest in the product and the upgrade. As you refine your sense of what the customer wants, you can produce it and he'll return for it.

The power of FREE can also be applied to service businesses. Provide a quick survey or scaled down version of your service free so your prospect can better understand the value of what you are selling.

Tip 5: Help customers get the most from your product

Concise, clear instructions on how to best use your product or service will help customers get the most out of your product and improve the likelihood they will return. Be sure you test your usage instructions on someone who knows nothing about the product. Give her the product exactly as a customer would receive it in the box. Watch her unpack it, read the instructions (or not), and try to use it. Money invested in good user documentation is always justified.

If you have excellent documentation and you explain to your customers that your gadget will work even better—and why that's the case—with a new add-on, you'll get yourself some returning customers. It all depends on the quality of your communication.

Don't overlook product care. If you touch base with your customer after the purchase to remind her about the product's maintenance schedule, ensuring its long life, she'll come back to you time and again. Who among us hasn't received such reminders from our car dealerships? These mailings keep the dealership's name in front of us, provide a value (the maintenance schedule), and offer useful discounts on oil changes. And while we're in for our tune up, we might check out the parts department and the showroom floor.

When targeting customers of a Web-based product or service, encourage them to sign up for account maintenance, or to verify their account status. When they log in, help them find something else that they like and want to have. Just do this sparingly. Spamming customers will send them lunging for the “unsubscribe” link. Consider employing a telephone sales company to make follow-up calls to check on satisfaction and offer related products or services. Again, do this sparingly! Put yourself in your customer’s shoes so you can find the balance between useful contact and annoyance.

Tip 6: Make your product or service “sticky”

Stickiness in customer retention means that you make it hard for the customer to move away from your service. People aren’t fond of change to begin with, and they’ll put up with a lot if their perceived cost of jumping ship—time, effort, and inconvenience—is greater than the reward of the unknown. “Better the devil you know than the devil you don’t.” Of course, none of us wants to bedevil our valued customers.

Banking is a classic example of stickiness. Accounts can be a little tricky to establish in the first place, so once customers get one, they tend to stick with it unless they find the service extremely unsatisfying. Once a customer opens an account, he sets up direct deposit for paychecks, and direct payments for bills such as subscriptions, mortgage payments, utilities, revolving credit, and so forth. The average customer, once he’s tied up in all this, tends to stay put unless he receives massive service account charges, which can undo all those prior customer acquisition efforts in a heartbeat. In banking, the industry assumption is that if they can get you to sign up for three services, they have you as a customer for life.

So, too, computer operating systems. For years, Apple has worked hard to get Windows users to switch loyalties. It’s seldom a slam-dunk, in large part because of stickiness.

Windows users may perceive that “learning Macs” will feel alien or they won’t have access to their favorite software. Of course, for its part, Apple is excelling at standardizing its user experience across platforms and across iDevices, flattening the learning curve all the way to the bank.

Brainstorm ways to make your product or service sticky while providing high consumer value, and you’ll find ways to keep customers.

We’ve discussed the value to you in maintaining existing customers, but how long will that customer deliver profitability if he doesn’t continue to see a high value in doing business with you? Let’s talk about this from both the business and consumer customer viewpoints.

Business customers: These folks compare profits they make on their product or service against the cost of engaging you for your services. You are a cost. When you stop providing enough value, they’ll leave. Don’t fool yourself into believing that a business can’t quantify your value, or isn’t rating your worth every so often. Find ways to show how your product or services contributes to the value of your customer’s product or service.

I once helped a software company see how customers would quantify the value we provided. We estimated, with reasonable accuracy, how much our software offering added to customers’ sales. We did this by leveraging customer general product gross margin information for most of their offerings. This analysis showed that our services ranged from a “great deal” to a “fair deal”, and it was only a matter of time before we would lose them—unless the company changed something. So armed, we reviewed our business model and cost structures, and adjusted both our offerings and pricing. I’m pleased to say the client provided more value and reduced customer attrition and churn.

Look at your product or service value under the same microscope, and adjust to keep profitable customers.

Tip 7: Inform your customers

When your customers are steeped in great information about your products, services and story, they'll be more likely to come back for more. Naturally, you'll want to gather their contact information when they purchase from you the first time around so you can stay in touch. Here are a few great methods for keeping clients and customers informed, engaged and on your side:

One of the best ways to do this is still some version of a newsletter. These can be electronic or physical. In fact, many leading companies publish some version of both. Google, Yahoo, and Microsoft, uncontested technology leaders, still produce informative paper and/or electronic mailings.

Whatever the format, use the medium to announce discounts, upcoming sales, product releases, and new services. You can profile customer success stories and tell your story about doing well in the customer's community. If you plan to send newsletters through e-mail, look into a service such as Campaign Monitor, which allows you to include a set number of links through to your website. Doing so lets you track how many customers click on each link and stay with each item, which gives you valuable data on what your customers consider relevant. Focus on more of those things in upcoming issues. Some services show you where the recipients who've clicked are located, giving you deeper insights into customer interest geographically.

Don't just assume that your customers know what you have to offer. Target customers based on their interest, and show them that you can meet their specific needs. Be careful not to wear out your welcome by too-frequent contact or contact

that lacks value—you'll have your customers searching for the trash can or the “unsubscribe” link.

Tip 8: Surprise your customers

Surprise your customers with unexpected benefits for a killer retention strategy. Say you're a camera reseller. Once a customer buys a camera from you, maybe a high-end SLR, give him a free camera case or quantity of high-quality print processing as your way of saying thanks.

A surprise gift, in contrast with an incentive, is impressive, touching and flattering, and these customers will return the favor with repeat business. After all, you learned to under-promise and over-perform for a reason. It works. This is another way to unleash the power of FREE.

Tip 9: Develop a customer service culture

Customer service is a core competency for any successful customer retention strategy. A robust customer service focus will help your customers to feel positive about your goods or services. It shows you stand behind your line, care about creating customer value, and value your customers. When shoppers feel that your service is competent, pleasant, and friendly, they'll keep coming back for more.

Very few companies can get away with bad customer service. For example, even banks, which have a high degree of stickiness, have become notorious for hidden fees and shunting consumers away from live tellers and toward ATMs and automated phone banking. Bank of America's debit card price increase led to such negative press, strong consumer push-back, and much-publicized defection to other banks that they had to abandon the new charges.

Once in a great while, bad customer service is part of the charm, as is the case of *Seinfeld's* fictional “soup nazi.” In

these cases, management seems to take apparent pride in getting customer service all wrong, and patrons return time and again with a new batch of friends in tow to see it for themselves. These successes notwithstanding, poor service is not a staple you want on your menu.

Quick tips to consider when stating your customer relations strategy

- Customer relations approaches and policies should be written down and understood by everyone in the company. Everyone is part of marketing. Everyone is selling all the time.
- Always follow up with clients and customers after their purchase to check that everything went well.
- Set dispute-resolution policies to streamline and quickly act on customer complaints, and monitor their effectiveness.
- Introduce a culture in your business where everyone is considered a customer, particularly the employees. Doing so inspires problem solving, attentiveness, and responsibility: all heart-healthy habits of a successful business.
- Train frontline staff in customer service. Often the customer's first and only contact with your company is with lower-level employees, so you have to take positive steps to ensure they understand this responsibility and know how to respond. This doesn't have to be a great expense; you'll find plenty of help online, including documentation, webinars, and podcasts that explain how to treat customers. You must also hire and retain attentive, bright staff who show they're eager to provide and mentor in top-notch customer service.

Actually, if you run a training course, even if it's only half a day with a lot of follow up reading, you show your employees

that you value them, you value customer service, and you want them to value your customers. The sheer fact that a training course is an unusual occurrence means it has a bigger impact than handing out a manual and telling employees that those are the rules.

Tip 10: Manage your supply chain with a customer focus

Customers want to be able to get their hands on your products and services when they need them, or at the very least, when you've promised them. You won't keep customers if you can't deliver on time.

Develop and routinely monitor service level agreements (SLAs) with your suppliers. These set forth when goods shall be delivered, either to you or to the customer. If a supplier cannot meet your SLA requirements, you will need to either move on to a new supplier or renegotiate with your customers. SLAs strip away ambiguity, and they help center relationships throughout the supply chain for stronger, better-managed service.

Effective supply chain management also relies on good demand forecasting. Anticipate your peak sales times, and make sure to have sufficient stock on hand to meet demand. Be careful not to stick yourself with too much inventory, particularly perishable items.

In services, you may run up against capacity limits to what you can provide. Understand what your supplier or distributor can guarantee to avoid overpromising and under delivering, which would disappoint customers. It's best to get it right the first time.

Tip 11: Create discount alliances

Give your customers the benefit of earning discounts when they support businesses you've partnered with, particularly those in related service areas. For example, a hiking club

Hammer Out the Deal

How do you get money when you need it? Understand accounting and finance—as well as the consequences of your options and choices. It can make or break you.

Bill was founder and majority owner of a privately-held build-to-suit construction company. He also developed real estate projects of his own, for around half of his total business. Bill, fifty-something, boasted an excellent reputation for work quality, timely delivery, and budget discipline. Unfortunately, he was caught off guard when the economy tanked and market needs changed. As credit dried up and fewer customers were able to secure pre-approved financing, Bill was stuck. Sales spiraled downward. The recession would wipe a lot of people out.

Financing on both the construction and purchaser sides, became key to sales. It was in Bill's best interest to partner with his customers in ways to afford his work. With my help, Bill began partnering with lenders and equity groups that could provide preapproved financing in a changing market.

You might wake up and find you're missing market share. What change must you make to build a stronger business?

might offer discounts at an outdoor gear store, and the outdoor gear store would offer discounts at the hiking club. Airlines often let customers apply earned air miles to patronize partners' goods and services, just as those partners reward their shoppers with air miles toward flights. Everybody wins.

It doesn't take much for a customer to perceive he's gained extra value in this situation. Don't feel you have to go overboard in setting the discount: just something measurable. You know your customers; you know what they'll value personally. Alternatively, you might offer something that costs you very little, but is a relative boon to your partner: Consider

Internet advertising: You provide details of a discount to your customers at the other business and they then in turn get free advertising from you. A couple of decent alliances of this nature can help to make your product enticingly sticky for customers, since if they stop frequenting your business, they know they'll lose the advantages you've made it possible for them to enjoy elsewhere.

Tip 12: Remember your customer's special events

Finally, find a way to focus on the special events in your customers' lives, such as birthdays, Father's Day, Mother's Day, graduations, and the like. What better time to remind customers that you're standing by to help them make a strong connection where it counts? Position your service or product as a thoughtful gift your customer might bestow on friends or family.

Succeeding at this requires that you build a system to remind the customer of these pending events, and allow lead time for shipping. For example, if you are in the business of chocolate gifts ordered online, you know when, why, and likely for whom a customer has been buying your product. Remind him or her that it's that happy time again, and you recommend this, that, or the other thing—with a five percent discount for purchase within the next 24 hours. These are the crucial warm or hot leads your sales team craves.

If you can afford it, send your client and customers a card or small token of appreciation on their special days—say, a discount on one of your goods or services, or a special deal on a partner's offerings. Some companies do this exceedingly well. Brooks Brothers just sent me a Black Friday special e-mail offering the lowest price I have ever seen on their wrinkle-free shirts. I really hadn't considered buying new shirts until that e-mail arrived.

This is just as applicable to business customers as to consumer customers – the decision-makers in a business are individuals, not departments! Focus attention on the special events in the lives of those decision-makers and make a small gesture that lets them know you think of them as individuals. For example send them a birthday card. Let everyone else send them a holiday card.

Recap

There's extra money on the table, and it's within marketing's grasp. How many of these 12 tips for defining products, creating leads and retaining customers are you putting to work?

Tip 1: Know What Your Customers Want

Tip 2: Create Anticipation for New Products

Tip 3: Deal with customer complaints promptly and decisively.

Tip 4: Unleash the power of FREE.

Tip 5: Help customers get the most from your product.

Tip 6: Make your product or service “sticky.”

Tip 7: Inform your customers.

Tip 8: Surprise your customers.

Tip 9 Develop a customer service culture.

Tip 10: Manage your supply chain with a customer focus.

Tip 11: Create discount alliances.

Tip 12: Remember your customer's special events.

Remember, most functional areas could do a much better job communicating with their peers in other areas. The

summaries below suggest one tip each peer noted below will normally like to talk to marketing about, and five bedrock tips to use where you see the most value.

Tips to Better Communicate With the:

Board – Tip 1: Know what your customers want.

CEO – Tip 2: Create anticipation for new products.

CFO – Tip 6: Make your product or service “sticky.”

COO – Tip 10: Manage your supply chain with your customer in mind.

CMO/CSO – Tip 12: Remember your customer’s special events.

CTO/ CIO – Tip 7: Inform your customers.

CPO/SVP-HR – Tip 5: Help customers get the most from your product.

Frank Leadership Tips

Tip 4: Unleash the power of free.

Tip 8: Surprise your customers.

Tip 9: Develop a customer service culture.

Tip 11: Create discount alliances.

Tip 12: Remember your customer’s special events.

Strategic conversations

Whenever marketing engages with leadership on such strategic issues, weigh the thrust of the issue against these listener concerns:

I need to know!

I don’t know

Why won’t you tell me?

How can you tell me?

Help them fill in the blanks. Help your business sell more, provide higher customer value, attract and retain top talent, account for profits and losses and lead its industry.

Strategy on applying the issues you see through this process:

When you see a blind spot opportunity or risk, ask yourself all three of these concerns?

1. Do I have the courage to do something about this?
2. Do I have the passion to do it even though it is impossible to do?
3. Am I willing to share the glory to get this solved?

Coming up: So you think you “get” your sales department? Without meaning to, these dedicated workers may be hiding millions from you. To help uncover that money, let’s put sales under a friendly microscope.

Chapter 4

Understanding Millions in Sales: What Sales May Not Be Telling You

In chapters two and three we talked about how marketing helps us decide on the product offering. Now that we have a customer's active interest, let's close the sale. After all, without growing topline sales profitably, where's the growth to create opportunities in operations, human resources, technical, administrative, and executive departments?

Do you know what drives a successful sales department? Do you know the secrets your sales team knows, and how to leverage that knowledge for extra profit? Training, modernization, skills development for your sales people. The old dogs might bristle at some of this, but the young pups live it with their digital, always-on devices and communities. As a leader, where do you want individual contributors, and where do you want more collaborative actions? Sales people are competitive. Recognize it. Encourage it. Reward it.

Let's walk through sales' turf and get you up to speed on several key concepts and practices including a different, strategic way to drive extra millions of revenue growth to accelerate scaling your business. Experienced salespeople, use this chapter to consider how you can help break down functional silos and keep the entire team informed, enlightened, and singing your praises.

Just as everyone in your company is in marketing, everyone in your company is in sales. Maybe not explicitly, but certainly potentially. Everyone is plugged into social media and online marketing; everyone is familiar with what's possible in customer relations management, or will be. Let's look at how to leverage this at your businesses.

In Chapter 5, I'll help you master sales tactics to uncover those missing millions beyond insurance.

It's All About Connection

With more consumer choices offered every day and buyers overturning traditional marketing channels for social media experiences, it's more important than ever to nurture customer relations and put buyers to work touting your message and brand. But how do you professional service firms and small business owners win customers' attention, action, and loyalty? How do such firms avoid pestering clients? How do they get the maximum return with minimum overhead?

Oh, for the good old days, veterans might lament. "Why, I remember when I could put in a call or send out a card, and I'd know that my client would take the time to respond." Salespeople used to refer to this customer contact as the doughnut run. The sales rep would schedule regular visits to established customers and be welcomed with professional courtesy and genuine warmth. Coca-Cola was famous for it, so were Marlboro, Xerox and a host of others. Even your life insurance salesman would call you on your birthday.

The good old days are gone, and not necessarily for the better. These days, with always-on broadband technology, we edit out nonproductive, invasive, and especially unsolicited communiqués. We spend more time binning e-mail than we do reading it, and no sales organization worth its salt will

tolerate anything less from its reps than “optimal lead conversion.” We’ve thrown the doughnut run overboard in the name of productivity. That’s unfortunate.

Twitter—which has taken the world by storm in packets of 140 characters times billions—is a perfect illustration of the frenetic pace of Internet-based social networking and communications technology. Twitter has its uses, but is rightly criticized as a media darling: novel, yes, but certainly neither inevitable nor irreplaceable. I think Twitter is making waves, and we’re right to ride it while it’s here, but too many salespeople are using it as a crutch. They have no idea how to send a stronger message that gets results.

Pin your business success on the basics: no matter what the demographic, sound marketing based on creating clear customer value will always drive successful business-to-business relationships.

Tap Tough-Times Opportunities

In business and in professional services, we hunger for reliable information. Not for trivia, mind you; but for genuine, researched, actionable information. Consider this: as circulation of mass daily newspapers such as *The Daily Telegraph* (UK) has plunged, circulation of the authoritative *Wall Street Journal* has surged. The paper appeals to financial-market watchers, yes, but we also see that the *Journal* appeals increasingly to people in business seeking authoritative, genuine, useful, corroborated news and views.

If you see yourself as a professional, and want to offer value to your clients and customers, put yourself in front of them at every opportunity. But do so methodically, strategically, and genuinely. Whether they are clients, prospects, or introducers, people who stay close to their contacts will enjoy success—particularly in tough times.

It's easier than ever to make and maintain that closeness. Look beyond Twitter and Facebook. You've got the telephone, e-mail, shared articles, or white papers. You've got greeting cards and postcards. You've got video clips. You've got books and articles you can recommend with authority thereby making a personal connection that provides value.

Are you using these classic "touches" to best effect? Are you asking your customer how he's traveling in these troubled times? Are you sending e-mails marking customer birthdays, business launch anniversaries, and new market initiatives? Are you sending postcards from a trip? "Old-fashioned" yet fundamental touch points give a relationship depth and texture. They're remembered and appreciated.

Be on the lookout for opportunities to "touch" contacts and demonstrate your expertise. Even a change to legislation gives you an occasion to reach out to contacts. And if you have subject matter expertise, use it. Put together a white paper and other marketing initiatives. If you lack the time or inclination to do that, snip and mail articles of interest to select clients. Make sure to attach a brief, friendly note: "Thought you might like to see this."

We live in an age of massive turmoil. Your contacts will appreciate your genuine, grounding interest.

How well have you considered the impact of stories like how one smart ad agency that wanted to convey the theme "big ideas, small budget," sent out cards the size of postage stamps instead of its traditional Christmas cards? It got its message out perfectly.

Measure Return on Effort

Also known as return on investment (ROI), your return on effort is the result: the revenues, the profits after marketing expenses (including promotion expenses, agency fees, and

event management fees for product launches). Your aim, after all is to make money, right? Remember: When you spend your time on social media outlets such as Twitter, Facebook, and Pinterest, it's all about return on effort. Use your time to pack a punch.

The challenge is to quantify the value of leads and sales that you generate from marketing and sales campaigns. The calculation is not simply the next sale to a customer: Rather, it is the lifetime value of the customer. This is the amount of revenue that one customer will generate over the life of the relationship, whether you measure it in weeks or years.

Say you're a mobile phone service provider. You know that the average customer spends \$100 a month on your service. As calculated over the full 12 months, your customer pays \$1,200. Let's say that customer stays with you for three and a half years. The revenue you generate from the customer over that period is \$4,200 ($\$100/\text{month} \times 12 \text{ months} \times 3.5 \text{ years}$).

Naturally, there will be a cost for you to service that customer—let's say \$30 per month. The total cost to service them over the full term of their time as your customer is \$1,260. ($\$30 \text{ per month for } 12 \text{ months over three and a half years.}$)

Therefore, a customer lifetime value would be the equivalent revenue generated by that customer over the term, which in this illustration is 3.5 years. This equates to \$4,200, less the cost of serving that customer over the 3.5 years, resulting in \$2,940. Now, say the cost of acquiring that customer is 10 percent of customer lifetime value: the amount spent is approximately \$294. This could be assessed as the marketing costs to gain a new customer.

In some textbooks, this is called cost per acquisition, or cost per sale. The formula is useful in setting marketing campaign

metrics and arming management and other decision-makers with key performance indicators toward assessing marketing plans and campaigns.

We generally accept that it costs up to five times as much to win a new customer as it does to retain an established customer. Our math above bears this out, and this is why most businesses spend time and money to retain customers. It almost always pays to keep existing customers happy.

Generate Leads

Selling products over the Internet, though not the same as serving a customer in a brick and mortar store, is nonetheless a relationship. After all, large-volume digital marketers such as iTunes Music Store and Amazon.com have earned impressive customer retention rates. But even these folks, just like Main Street plumbing contractors, business coaches and Realtors, need to generate leads.

Online and offline, lead generation begins with a prospect who might show some interest in your product or service. If you think of lead generation as a kind of sales funnel, then your task is to convert that prospect into a customer.

As I showed above, the only thing that really counts toward successful ROI is cost of your effort against the lifetime value of a customer. Therefore, you must determine your lead's value.

The calculation is simple: assess the number of leads generated over a given period and divide that by the number of new customers generated from those leads. If, for example, you produce 300 leads and 100 sales over the previous 12 months, then the lead conversion rate is $100/300$, or 30 percent. Going back to the lifetime value: if this value is \$1,000 then a lead is worth 30 percent of \$1,000, or \$300. Hence, each lead generated from your marketing effort is worth \$300 to you.

Use Your Time Wisely

Time is indeed a scarce commodity. Most small business leaders juggle many urgent priorities, and the cost for dropping a ball is high. This is an example of the value or cost of not maximizing a salesperson's time in front of qualified prospects. Sales and marketing experts often talk about measuring how much time sales spends face-to-face or belly-to-belly with customers. That personal interaction in most industries is still the best way for salespersons to sell more.

Another excellent use of your time: investing in ongoing sales training. As a rule of thumb, fewer than 60 percent of salespeople meet quota, and the win rate of forecasted deals falls beneath 50 percent. Moreover, 60 percent of salespeople ask for more training. Train your people. (Years ago, I invested in sales champ Tom Hopkins' three-day Boot Camp Sales Mastery, because I felt unsupported and inadequately trained. It made a world of difference.)

If sales struggles so to meet quota, and if the win rate on sales funnel targets is so low, the pressure is going to radiate throughout the organization to attain corporate sales and profitability targets.

If you're not going to sell effectively, why are you in business? Where is your front-line point of sales staff undertrained and poorly supported? That's your blind spot.

Lead Generation and Social Media

Increasingly, customers—or potential customers—turn to each other via the Internet to gather opinions about you, your product or service, and your competitors. You need to be part of that conversation. You want to connect with people looking for what you offer and meet them in their own space.

Treat your investment in social media—Twitter, Facebook, Foursquare, Pinterest and the like—the same as you would

any marketing campaign, paying careful attention to return on effort. Do your staff and paid agencies know what constitutes acceptable return? Make sure they know, or they'll be spinning their wheels.

Naturally, you will have to invest relatively heavily in social media to penetrate teen and young adult markets, as that's the only place such consumers go to get news and views—and increasingly, to develop ideas for things to buy and places to travel.

Contrast that with the B2B space, where you can get away with a considerably smaller social media spend. LinkedIn, the leading professional networking site, is a good tool to use to keep ties fresh, solicit or bestow introductions, and research allies and applicants. Its popularity is on the rise.

Similarly, even at the professional services level (think accounting and business coaching), Twitter is useful in positioning yourself as an expert and part of the conversation. And because users judge you on the usefulness of your posts and reposts and by the quality of the people you follow and who follow you, you will score points by just being yourself: involved, connected and sincere. But make sure you justify that investment with solid results. Set metrics to manage your time. Messaging at random because it's fun or because it feels like a customer relations process is neither sustainable nor justifiable. Make sure each action you take supports a stated marketing strategy and drives desired gains in sales revenue and bottom-line profit.

Even creating and maintaining a blog has to earn its keep. Business is not a vanity game; it's about generating leads, sales and profits. Even if your idea is to position yourself as an expert, justify your actions purely from the hard-nosed perspective of return on effort.

Keep in Touch—and Grow

Consider that bigger, better, and more profitable in a controllable environment is often viewed by most business people with enthusiasm on par with motherhood and apple pie. When companies fully appreciate marketing, the department's input directly supports the business growth strategy, which you may be familiar with as “high growth” and “scaling.” I call it survival. Without profitable growth and satisfied customers, where will you find the funds to create new jobs, justify promotions, and allow fatter incentive checks?

With that in mind, we can lay out the framework for growth throughout your company:

In the digital age, staying in touch and deepening customer relationships is essential to growth. Take a page from the big boys: entrepreneurs and Internet hopefuls often cite luminaries such as Apple's iTunes Music Store, Amazon.com, and Facebook as examples of perfectly scalable business models. Certainly, if you want to build a business that has impact, then at some point you have to scale. Even if a business idea takes root in a dorm room or parents' garage, the business proper is built by deep, layered, and committed teams of people.

Google, arguably the definitive 'Net superstar, employs 20,000. Facebook boasts more than 1,500. Whatever the size of your business or the size of your business after accomplishing your present goals and dreams, consider that business owners who have successfully scaled up--or tried and fell short—agree:

- Business owners who are determined to scale need a mentor.
- Some seasoned executives on your team are key to success.

- Team members must collaborate toward a shared vision.
- Scaling businesses requires systems and processes to ensure communication and accountability.

Growth is tremendously exciting. Just having an idea worth building a business around is an accomplishment most people will never enjoy. But scaling is a skill set even fewer people share, as it comes from experience. How would a business owner know... well, what he doesn't know? That's why it's common sense and practical wisdom to choose seasoned mentors and experienced employees, while developing your own track record in the art and science of scaling.

Get Ready for Change and Let Sales Lead the Way

Growing businesses often report that communication, even basic communication among employees, is a surprising challenge. What worked well for the first few years, with scale now seems to miss the mark. But it's the same way we've always done it. What's wrong?

Process management experts counsel that businesses need to build in efficient communication for success. As we scale up, the cost in noise and poorly encoded or decoded messages is magnified as a function of the number of people involved. A business of five people hardly needs process, as they can just talk to each other. Hundreds or thousands of people? Now you need technology. Now you need to collaborate.

One key point is to monitor the basis of competition. Do you sell at best price? Highest quality? Fastest delivery? Best finance terms? Greatest innovation? Reputation? Service? Support? Marketing normally gets that right and sales executes accordingly, but business climates are fickle. Good sales people in the field with customers are most likely to be the first people to feel the shifting of the wind, and balance

approaches as needed. With less customer face-time, marketing might not pick up on the change as rapidly as it should. Consider how well your organization communicates and responds to this cutting edge market information to better manage this potential blind spot.

Scaling a business mostly relates to how effectively you leverage communications technology. You'll be rewarded for identifying tasks, spelling out everyone's role and accountability, and defining how mission-critical information is passed from person to person, department to executive. At this scale, effective communication actually becomes trickier. Your solution is a robust communications process built to handle the load, eliminate uncertainty, and protect against costly blind spots.

Perfect and Expand the Prototype

Here's an example from my files. Restaurant owners can mint money when pleasant employees deliver high-quality, consistently prepared food quickly under a well thought-out system. Reduce that quality, aggravate the customer, slow down delivery time, or fail to maintain clean bathrooms, and disaster overwhelms that same restaurant.

Not in the restaurant business? The logic applies to you too. I've seen high-growth and disaster scenarios played out in companies ranging from small fast-food joints to cutting-edge high-tech leaders.

In the hamburger business, when we smiled and said thank you, delivered a consistently high-quality product, and quickly got cash to the bank, we thrived. When competitors failed to execute similar tactics, they lost their shirt. Simple enough to transfer that winning recipe to the building products industry, where I suggested a Fortune 500 client in steel's international division apply the same basic marketing and scaling solutions. They work.

Just Enough Chefs in the Kitchen

Address skepticism before it addresses you. To operate at full strength, you need a team united behind your vision, your mission, and your values. Even if you're uncomfortable to admit that changes are needed in your business model or execution, let them know what's going on. The worst thing that can happen to you in business is unchecked internal strife.

Joe, a forty-something restaurant developer serving up his third success, was having a sweet time. His expertise was in building a company, making it profitable, selling it, and paying his investors big profits. Unfortunately, (there's too often an "unfortunately," isn't there?) the company lost a key profitable partnership, and found itself depending on a newer, riskier, less financeable restaurant concept. Joe needed three times the equity original estimates called for.

Joe learned in a flash that financial sources and partners hate to be blindsided with bad financial news, particularly when they learn about a series of bad fiscal decisions only after the fact. Understandably, Joe's investors were now worried whether he could deliver big projected profits. The heat was on.

Joe and his team had been missing reliable, forward-looking financial information and projections. When I looked at the program, as investors fumed, I served Joe two options: continue the original plan, but triple the intended investment or accept a structured approach to developing a more geographically focused area for his offerings.

He chose the latter. It worked, of course. Confidence restored.

The hamburger success story, of course, comes with a lesson on sales and scaling from Ray Kroc, who led McDonald's restaurants from humble beginnings to a global juggernaut.

After taking over what was in 1954 a small and uneven chain of restaurants, Ray Kroc perfected, to the last detail, his vision for the way McDonald's restaurant would run. By 1961, his commitment to standardization of operations and quality allowed him to replicate his success—thousands and thousands of times over. (For an interesting article on the origins of hamburgers up to and including the McDonald's chain, check out <http://health.learninginfo.org/hamburger.htm>.) Kroc needed not just standardized systems and procedures, but informed and trained employees backed by a unified organizational structure. If McDonald's was going to thrive, Kroc needed to find others to do the line work. And he found them. Kroc prepared employees to handle the technical details—both manual and managerial—and freed himself for strategic thinking.

For businesspeople planning to grow beyond their personal management style or limitations, Kroc's concept is clarity personified.

Of course, Kroc's approach is hardly restricted to food retail. Virtually any business case can apply it. An effective prototype is more than a well-oiled machine, it's a business that finds and keeps customers—profitably—better than any other competitor.

Turn the Key

Here's what Kroc really built, and what you can master too: turnkey systems.

When you buy a new car, you don't have to open the hood and fiddle with the engine. You just strap in, turn the key, and hit the road. In business, a turnkey is a system so finely crafted that it's good to go right off the lot. No debugging, fiddling, or head scratching required. Just open the door and start making money. If your business is starting to feel more like a rut

QUESTIONS & ANSWERS

GREG WHITE |
CEO, Blue Ridge Inventory Group
MARIETTA, GA.

Greg White says he loves making his living helping companies make millions by improving the way they manage their inventory. Backed by decades of experience managing inventory and merchandising, he and his companies help optimize demand fulfillment and inventory investment for retailers and distributors of every size, from Fortune 500 customers to “a guy who sells gloves out of his garage.”

Blue Ridge employs approximately thirty people and boasts \$5 million to \$7 million in revenue.

Gary Patterson: Greg, you seem to thrive as a big-picture guy who excels at mastering processes down at the granular level. As an executive, how sure are you that you are asking your own people the right questions so that you have the big picture at your companies?

Greg White: I make it a personal goal to ask the proper questions to get a clear picture from my folks. My questions are probing, and I either get the answer or continue digging until I have the necessary information—or realize the person I’m asking can’t give me the answer.

GP: Whose responsibility is it to set this tone?

GW: I’m a borderline micromanager. I try to set the direction for people. Paul Rose, a wise man [and vice president corporate inventory at Henry Schein, Inc.] once told me, “You don’t get what you expect; you get what you inspect.” What are we doing as a team? What are the gotchas?

The burden is on your board members, your execs. You have to be diligent. You get what you inspect. I measure everything. When Paul Rose is hit by a gotcha, he fixes it. And fixing it to him starts with asking the question, “What can I have done ten steps back to have prevented this from happening?”

GP: Are your people sharing the right information with each other and you?

GW: Most often, we are sharing the right information, but not always complete information. That usually comes down to whether we’re listening, or just waiting to jump in and talk.

GP: What, in your opinion, is the right information?

GW: The right information for me is that which allows me to assess the situation and make a decision or assessment on the spot. My day is full of so many evaluations—I couldn’t have contemplated how many before being a CEO—and I always try to remember that my people can’t even begin to imagine how many decisions and evaluations I make in a day. I recognize that it is my responsibility to extract concise, complete, and correct information from the team, and I strive to make that my burden.

GP: How well would you say your leadership team is empowered to fight blind spots?

GW: Some are more empowered than others. I believe you have people who are more discerning than others. Ultimately, it comes down to my trust of their capability to effectively assess and deliver information.

GP: How do you want to be told information that the deliverer might be reluctant to share?

GW: I want to hear what the issue is and what solution he suggests. Further, I'd like to know what priority he put on it. I often ask, "Would you put this higher or lower on the priority list than X?" This also helps them gain perspective on the relative importance of the issue. Otherwise, if people only think about the count of issues, I find you will have people worried that things are crumbling around them. Perspective is key.

A problem without a solution is a complaint. We're not about complaining, we're about solving problems. I don't care if it's a dumb solution. If you're presenting a problem, present it to me as an opportunity: "Here's how I see us fixing it, capitalizing on it."

Some people think in very structured, linear, and singular ways. I'll ask, "What are our options? Why couldn't we do it another way? Why couldn't we do it this way?" That gets people thinking. Sometimes I'll have the option; sometimes I won't.

In addition to being CEO at Blue Ridge Inventory, Greg is chairman and CEO at Exactorder, which helps clients eliminate stockouts without breaking the bank; is chairman of Intrinsic Value Chain Solutions, a holding company for supply chain technology ventures; and past director of professional services at Servigistics and leader of On-demand solutions at E3 Corporation.

than a business, then it is time for you to find a new way of doing business: the turnkey approach. A turnkey system is any method or procedure that simplifies or automates part of the business, making it easier for ordinary people to operate.

Work on Your Attitude

This is the essence of what entrepreneur guru and *The E-Myth* author Michael Gerber calls the prototype. Gerber talks often about how 80 percent of businesses fail in the first five years. He reports that most people become sick of working for their “idiot bosses,” so they decide to start their own businesses—and end up becoming the idiot boss. Instead of working five days per week for guaranteed pay, they now get to work six to seven days per week, often for no pay. Do you relate to those sad statistics?

In his follow-up, *The E-Myth Revisited*, Gerber walks a business owner through various stages of a business life cycle to highlight the points of inflection for success and failure. He famously asserts a major distinction: working *on* your business versus working *in* your business. To grow a business, he says; focus on freedom, not servitude. Do you work for your business, or does your business work for you? Michael Gerber has a company website with more information about him and his blog at <http://www.michaelgerbercompanies.com/>

A true business is a profitable enterprise that thrives without you, and rewards you with passive income. Most people who believe they have a business really only have a job, one that concentrates incredible stress and liability on the owner. Could you go sailing for six months and know that your business is thriving? Most people do not know how to set up a business like that. They just have jobs.

Just as McDonald’s restaurants are replicated tens of thousands of times over around the world, your business can run itself on a turnkey basis if you set up the right systems and procedures.

For a manager, the systems approach provides vital order and predictability. For a proficient technical specialist or

professional business operator-owner, it allows others to do the heavy lifting. Why shouldn't you be free to focus on strategy, go sailing, spend more time on charitable works, or start additional successful businesses?

Every business has its own unique characteristics. Your task as the business owner is to identify and build your own appropriate, systems, written as a procedures and tasks manual (sometimes called operations manuals). Every segment of your business has procedures that constitute your workflow, consistent with set strategic goals and corporate values.

Just because you're armed with a business plan or a set of strategic goals hardly means running your business will be any easier. You've got to perfect your systems, procedures, and organizational structure. Ray Kroc sweated over this before he *knew* that a franchise operator could come in, switch on the lights, and deliver the same high-quality hamburger time and time again. He handled, examined, improved, and documented every detail of the business, and now that business is an icon.

Say you've earned some experience making sales, negotiating with suppliers, and tracking expenses. At some point, you're going to realize that either (a) this is as far as you believe you can go, or (b) there's a lot more value you can create for yourself and clients. At that point, you need to scale up: penetrate new markets, take on a region, a niche or an industry, and delve into systems and procedures.

Now you need to leverage technology to "touch" your contacts, highlight your expertise, and deepen your relationships. Now you must quantify the cost of your sales and marketing efforts, and fix the financial value of your leads and customers. When appropriate, you can tap social media to reach and connect with leads and customers profitably.

If a business owner wants to scale her business with the least overhead, she would be well advised to seek out a mentor, hire experienced personnel, and enhance collaboration through the development of turnkey systems, which would ensure proper expectations and accountability.

This investment requires buy-in from all key people. Ask yourself: what would best serve our customers? How could we streamline our practices to create the greatest customer value with the least overhead? How can we set this up so that it runs on its own power, freeing us up to think strategically and meet new goals?

Now you're in business.

To help build that business and exploit those missing millions in sales, the next chapter provides a dozen secret tips: focused tactics to ensure you exploit the full benefits that marketing can provide all areas of the business.

Bedrock truths:

Time in front of the customer is key.

Process and procedures are the keys to scale and growth.

Measure return on efforts.

Generate leads.

Keep in touch.

Keep your customers.