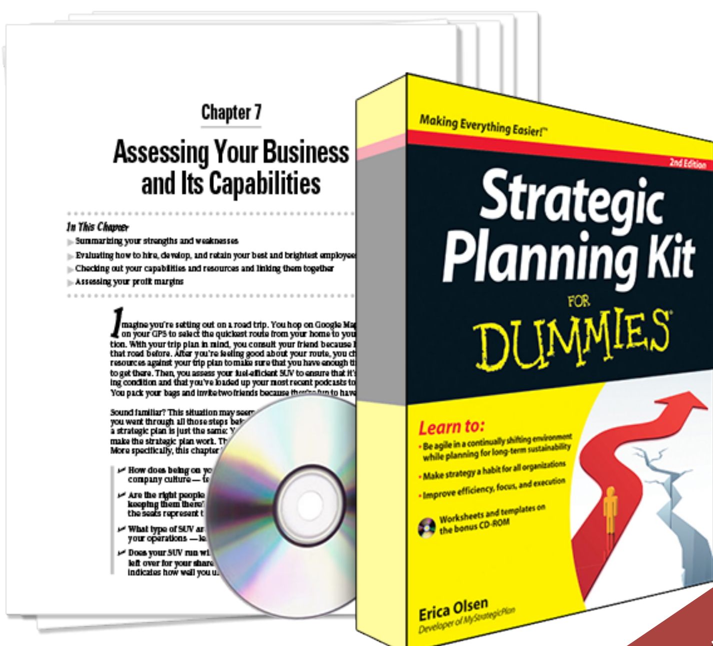
Don't be a "Dummy"

Assess Your Business and Its Capablities

We wrote this book from our experience helping fortune 500 companies, businesses and non-profits create and execute their strategy. **OnStrategy** is the enterprise, cloud-based leader in strategy management. Our online tools and hands-on services, including our flagship platform for empowering people to create and execute strategy, connects customers, employees and stakeholders to achieve enduring success.

We believe strategy is more than simply achieving business goals. It inspires people to work hard, incites action and makes things happen. Simply architected, thoughtfully executed, strategy moves mountains. We hope you enjoy this free chapter *"Assessing Your Business and Its Capabilities"* from our book **Strategic Planning Kit for Dummies**.



Chapter 7

Assessing Your Business and Its Capabilities

In This Chapter

- ▶ Summarizing your strengths and weaknesses
- ▶ Evaluating how to hire, develop, and retain your best and brightest employees
- ▶ Checking out your capabilities and resources and linking them together
- ▶ Assessing your profit margins

Imagine you're setting out on a road trip. You hop on Google Maps or turn on your GPS to select the quickest route from your home to your destination. With your trip plan in mind, you consult your friend because he traveled that road before. After you're feeling good about your route, you check your resources against your trip plan to make sure that you have enough time and gas to get there. Then, you assess your fuel-efficient SUV to ensure that it's in working condition and that you've loaded up your most recent podcasts to your iPod. You pack your bags and invite two friends because they're fun to have around.

Sound familiar? This situation may seem too methodical, but more than likely, you went through all those steps before you headed out on the road. Mapping a strategic plan is just the same: Your company needs a road map or plan to make the strategic plan work. This chapter focuses on your SUV (or company). More specifically, this chapter takes a look at the following points:

- **How does being on your SUV feel?** How it feels on the SUV is your company culture — teamwork, leadership, and climate for action.
- **Are the right people on your SUV and in the right seats? Are you keeping them there?** The SUV passengers are your employees, and the seats represent their skills and capabilities.
- **What type of SUV are you driving?** The type of SUV you drive indicates your operations — lean and mean or clunky and gas-guzzling.
- **Does your SUV run with the right amount of fuel so you have something left over for your shareholders?** This fuel is your profit margin, which indicates how well you use your resources to get where you want to go.

Using the road trip analogy helps explain the unexplainable in strategic planning. Understanding how your company's resources, capabilities, and processes are used to grow the organization is critical to successfully executing your strategy, growing your company, and ultimately making it sustainable. Often, pinpointing all the things that need to come together to move a company forward is difficult.

This chapter focuses on assessing your company's strengths and weaknesses that define where you stand today. Later, you use this information to guide the goals and objectives in your strategic plan.

Establishing a Starting Point: Identifying Your Business's Strategic Position

To move from where you are today to where you want to go, you have to determine your *strategic position,* or where you stand today. This process is like taking your SUV into a mechanic for the annual tune-up. You get an assessment of what's working, what's not, what you need to fix, and what can wait.

In this chapter and Chapters 8 and 10, you perform an annual tune-up of your business with the help of a trusted business planning tool: the SWOT. SWOT stands for **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats. These four categories help you focus on the key factors that define your strategic position.

Your focus in this chapter is on your company's strengths and weaknesses; Chapter 8 looks at your strengths and weakness, too, but through the eyes of your customers. In Chapter 10, you focus on completing your SWOT analysis by identifying your opportunities and threats. You see the SWOT again in Chapter 12 when you develop your company's goals and objectives based on this information.

Use the following steps and tools on the CD to get started:

1. **Use the SWOT Analysis Template on the CD to start your own.**

   By breaking down your internal environment into capabilities, resources, and processes, you have a place to start assessing your company. Without these categories, the task can seem a little daunting. This format ensures that you're looking at your strengths and weaknesses holistically, instead of approaching them haphazardly.

2. **Perform a quick survey of your company's strengths and weaknesses, using the Intangible Assets Questionnaire on the CD.**

   Your organization's strengths encompass everything your company does well, including capabilities, skills, and resources, that you can leverage and draw on to execute plans and actions in your company.

Weaknesses, conversely, encompass everything that's holding your company back from achieving your goals or serving your customers. You can conduct this exercise from either a bottom-up (individuals to managers to executives) or a top-down process. Alternatively, you can choose to focus just on your SWOT development on one or more strategic issues that you identified at the beginning of the process.

3. **Dig a little deeper with the SWOT Analysis Template located on the CD to get more specific about each area.**

   Each section of this chapter is likely to give you insights and ideas about your strengths and weaknesses. Again, the SWOT Analysis Template helps you capture all your thoughts and keep them in order. For example, jot down thoughts about your effective customer relationship processes under *Strengths* and problems with employee retention under *Weaknesses.*

As you answer the questionnaires and track your ideas throughout this chapter, you have a good starting point to summarize and add to your key strengths and weaknesses. (Remember, these ideas can become the basis for goals in your strategic plan.) After you read through this chapter, you should have enough thoughts to fill in the two left-side quadrants on the SWOT Analysis Template. Consider this grid a running list of thoughts about your strategic position as you move through the rest of Part III. You complete your full SWOT at the end of Chapter 10.

Evaluating Your Company's Capabilities

The first phase of identifying your strengths and weaknesses is looking at your capabilities or intangible assets (*intangible* means incapable of being realized or defined — not having physical presence). These assets point to why organizations are good or not good at identifying and leveraging people, culture, and knowledge.

By breaking down your capabilities into certain areas, which I show you how to do in the following sections, you can start to define your strengths and weaknesses. After they're defined, align them with the strategic direction you want to go. You need people with the skills and knowledge who are motivated and resourceful to make your strategic plan a reality. Otherwise, you just have a bunch of good ideas on a piece of paper.

Human capital: Having the right people in the right positions

How many times have you heard someone say, "Our employees are our most important asset"? And how often do you feel like your company (or any company for that matter) backs up that statement? The time has come where big and small businesses alike no longer pay lip service to this statement. The trend is to spend more time and money on recruiting absolutely the best people. No matter how busy you are, not hiring anyone is better than hiring the wrong person.

After you have the right people on your SUV, making sure that they're in the right seats means they have the skills and abilities to do their jobs. Just hiring them without training and development is like buying a house and doing nothing to maintain or improve it. You're letting your asset go to waste.

When you get the right people in the right seats, you want to keep them there. Nothing is more harmful and costly than losing good people — harmful because knowledge walks out the door and costly because you have to train someone else. So although hiring the best people is good, hiring the best people and making sure that they're developed with the right skills and abilities is better.

Evaluate how well you do the following management tasks:

- **Hiring:** Only *you* can answer whether your current hiring process yields good results. Every company has its own unique approach to evaluating potential employees — personality tests, rounds of interviews, special questions, and so on. No one way is superior to another. What really matters is getting the right people onboard. But a great way to see quick results in your company, if you're having employee problems, is to hire slow and fire fast.
- **Developing:** How effective is your training and development program? Do your employees have the best tools and work environment to do their jobs? You may have a formalized program, but, again, what really matters is that your employees are doing their best work and achieving their fullest potential. If employees really are your most important asset, you need to develop them to realize the full value of your investment.

  REMEMBER

  Training and development needs to be linked directly to improvement *at work.* Make sure that you're training for the capabilities that your organization needs to move forward. For example, if you want to improve your productivity, send your employees to a time management workshop instead of a team-building ropes course. I'm constantly amazed at how many training programs aren't linked to the overall strategy.
- **Retaining:** The words *employee retention* hit most business owners in the gut. Managing people can be a hard concept for some people, and retention seems to be the perceived outcome of poor management (which isn't necessarily the case because employees leave for numerous reasons unrelated to their jobs). Nevertheless, do you know the number-one reason people leave their jobs? Not feeling appreciated by their boss. Employees need to feel appreciated, challenged, and fairly rewarded to stick around.

  How's your retention rate? Because you've invested a significant amount of time and money into your employees, retaining them becomes imperative. Otherwise, you let your most valued asset walk out the door.

Obviously, the outcome of not performing these management tasks well is a high turnover rate. However, you don't want to wait until people leave to make improvements. You can evaluate these three areas by surveying employees, conducting exit interviews, bringing in an HR consultant, and monitoring overall employee satisfaction. To complete your view of your employees' capabilities, include customer praises and complaints in your assessment.

GoDaddy.com, the number-one Internet domain registrar in the world, is known for putting its money where it really matters. No $5,000 office chairs or $10,000 conference tables. Founder Bob Parsons invests in the two assets that contribute to profitability: people and technology. Although he focuses on keeping costs down, Parsons doesn't scrimp on employee incentives. He gives away televisions, trips, motorcycles, a car, and even a year's rent or mortgage. Why? Because as his call centers grow, he wants them to be a fun place to work. When his people are having fun, his customers are happy because they get to talk to happy employees. When his customers are happy, production and sales go up.

Organizational capital: Getting a feeling for your corporate culture

The second phase in the assessment of your company's capabilities is reviewing its organizational capital. Now that you have people on your SUV and in the right seats, answer the following questions:

- How does it feel to be on your SUV? (How is your work environment?)
- Do you and your employees like coming to work?
- Does everyone get along?
- Is someone driving the SUV? (Who's running the show?)
- What's your organizational culture like?

REMEMBER

Organizations are made up of people, and the people determine what goes on at work. At the end of the day, every person is responsible for how the work gets done and how the organization functions.

Structure, teamwork, management, and leadership dictate how it feels to work in your business environment. Evaluate your organizational capital by looking at the following areas:

- **Structure:** Structure does serve a purpose — to have an efficient flow of information for action and decision making. Normally, organizational charts look like a bunch of departments cobbled together because businesses grow and morph over time. Is your organization structured to allow everyone to operate effectively? How many signatures do you need to get approval?

- **Leadership:** *Leadership* is the art of getting people to do what you want because they want to. Leadership comes in many styles, but the end result is the same. Leaders are responsible for setting the vision and the strategy. How's your leadership?
- **Management:** Managers are responsible for making sure that the work gets done and that employees are performing at their peak level. In your company, the lines between leaders and managers may be blurred. Your leaders may be managers, and your managers may be leaders. Either way, both are just as important in keeping your SUV moving down the road. Is your management team successfully getting the work done and helping your employees achieve their fullest potential?
- **Teamwork:** How do you build a great team? Numerous theories exist that can easily fill the rest of this book. But nothing gets done in business, except maybe answering the phone, without teamwork. For your evaluation, ask yourself whether the whole is greater than the sum of the parts. Are your people achieving more together than apart?

Each of these areas has industries built around it. If you're looking to dig in to improving one or more of them, look to an outside consulting firm or training course that focuses on the discipline specifically.

Patagonia — an environmentally-conscious, highly innovative outdoor clothing company — is notorious for its enviable culture. Under founder Yvon Chouinard's leadership, the company has reached $240 million in annual sales. The business continues to maintain a complete and total commitment to environmentalism as well as blending work and play. At times, profitability takes a lower priority than upholding the corporate values. The corporate culture emanates from the top through Chouinard's philosophy and leadership style. His thoughts are consistently supported by managers, teams, employee internship programs, and the company's lack of cubicles. Surfing at lunchtime or taking major customers skiing is part of Patagonia's business and its culture.

Knowledge capital: Knowing what you already know

The third phase in the assessment of your company capabilities is reviewing its knowledge capital. The institutional knowledge, or *tribal knowledge,* as I like to call it, is one of those management fads that come and go. But regardless of what may be hip in the business traditions of today, creating and maintaining an efficient knowledge management system to share information companywide is common sense.

WARNING!

Most companies don't maintain and retain knowledge very well because, by some estimates, up to 70 percent of what employees do is nothing more than reinventing what their organization had discovered previously. And why do you want your people wasting time figuring out what someone else in the company has already discovered? Information is an intangible asset that can be a significant competitive advantage if you can harness it.

At its simplest form, managing your tribal knowledge is figuring out a way to capture everything your organization knows and then creating an easy way for everyone in the company to access and share that knowledge. Here's an easy process to make improvements in the area of knowledge capital:

1. **Identify what information is actually knowledge.**

   Information is a lot of data put into context. *Knowledge* is information that's been processed and identified as continually useful to the organization. Knowledge must contribute to your competitive advantage. Identify the key areas of knowledge that make your company run. Think about your core processes, customer service, vendor relationships, client relationships, and so on. Think about what would happen if your key employees left. What knowledge do they have that you need to capture?

2. **Capture the knowledge.**

   You want to translate the knowledge from your employees to a place where the information can be stored and backed up. You can capture knowledge by conducting exit interviews, standardizing processes, successfully using customer relationship management (CRM) systems with complete customer profiles, job shadowing, and so on. By capturing the knowledge, you're formally bringing what's in someone's head into your business — permanently.

3. **Share your findings.**

   I know, I know, too much information exists in this world already. I agree! Everyone is on information overload. But your tribal knowledge is the type of information that should make everyone's job easier. Do you have Google-like search capability in your business data that returns usable results? Figure out ways to share the knowledge in five-minute debriefings at your staff meetings, on a company blog, or in a training manual for new hires.

4. **Use the knowledge.**

   Now that you have leverage, make sure that you use it. Put the knowledge into practice by cross-training current employees, educating new employees if it's within their functional area, and adding to the knowledge base continually. If you've done the other three steps correctly, you should see an improvement in overall productivity.

IN THE PLAN

Identify one or two ways to tackle knowledge management this year. Develop a one-year and a three-year goal for your strategic plan. Knowledge disappearance has been a problem throughout time, and what makes the situation more severe today is that the knowledge that's being lost is more complex, abstract, and difficult to create than ever before. More than likely, knowledge management is an area that can use some improvement in your company. You want to protect the information that your company thrives on.

But don't just listen to me. Listen to Bill Gates, one of the most successful entrepreneurs: "The most meaningful way to differentiate your company from your competition, the best way to put distance between yourself and the crowd, is to do an outstanding job with information. How you gather, manage, and use information determines whether you win or lose."

Examining Your Resources

After your capabilities are sufficiently understood, the next step in the SWOT process is looking at your resources. (Refer to your SWOT analysis if needed.) *Resources* are tangible assets — any physical or quantifiable assets that your organization uses to bring revenue into your business. Some assets, such as your brand, are intangible but still have a quantifiable value to your company, just like your long-standing customer relationships.

From a strategic perspective, you need to look at what tangible assets you have versus what you need to achieve your strategic plan. You may need to come back to this section after you've developed more of your plan. But taking stock of where you are now can be helpful in your planning process. Specifically, you need to look at the following:

- What tangible assets you have in your company right now that allow you to produce your product or service
- What tangible assets you need to continue to provide and exceed your current service levels

TIP

Create a page titled "Resources." List the assets you have (strengths), the assets you need (weaknesses), and the assets you desire. Consider coming back to this page when you're further along in your plan development.

To help identify your business resources, group them under the following categories:

- **Financial resources:** These resources include all the items available to finance or pay for your strategic decisions. Existing resources include cash balances, lines of credit, other loans, owner's equity, and credit agreements with your vendors.
- **Intangible resources:** Your intangible resources are everything that you can't touch or feel but that you know has value to your business. These sources include
  - **Brands:** Your standing and awareness in the marketplace is your brand.

  - **Goodwill:** Goodwill is the difference between the value of your tangible assets and the actual market value of your business.
  - **Intellectual property:** When you're managing your knowledge, you actually turn a capability into a resource. Intellectual property also includes patents, trademarks, and copyrights.
  - **Reputation:** Your reputation is your standing in your community and your industry.
- **Physical resources:** Your physical resources include everything you have and use to deliver your products and services. These resources also include
  - Production facilities, which may include buildings, plants, machinery, capacity, investment and maintenance, quality, and organization of your production processes
  - Information technology (IT), which includes systems, computers, and critical software in use in the organization and also encompasses integration with customers and suppliers

Processes: Connecting Your Capabilities and Resources

The next step in the SWOT analysis is looking at the processes. Are you cruising down the road smoothly, or is your SUV coughing and sputtering along, barely making it to the next service station? More than likely, your company is somewhere between these two extremes. And you probably go back and forth between states of high and low performance. It's time to open up the hood of your SUV and find out what's going on in there. In this section, you're looking at the processes that connect your intangible assets to your tangible assets to produce an outcome, which is a current product or service, a new product, customer service, or development and maintenance of relationships with partners and governmental agencies.

When evaluating your internal processes, they need to pass the efficiency/effectiveness test:

- ***Efficiency* is doing things right.** Are your processes producing the end result you desire?
- ***Effectiveness* is doing the right things.** Are you involved in the processes you should be involved in? If not, these processes are potential areas for outsourcing.

ON THE CD

By reviewing your internal processes, you find some that are operating at full efficiency and others that are barely hanging on. Do you have some processes that continually have problems? Are there others that are working just perfectly?

Just like with intangible assets, your processes break down into general business areas. Complete the Operational Processes Questionnaire located on the CD to grasp a better understanding of operational, customer, relationship, and innovation processes. These processes are also described further in the following sections.

Operational processes

Operations produce and deliver the goods and services to customers. These processes encompass managing your creation of customer value.

Service companies may be tempted to think that processes aren't managed in this area, but consider how you deliver your service. It doesn't happen by magic. You take specific steps to deliver what you do; these steps are your operational processes. Because strategic planning is about improving the status quo, looking at how to improve operations is the key.

Operations management covers four generic processes:

- **Developing and sustaining supplier or vendor relationships:** Bringing raw material and goods into your company is a set of processes that feed into how you produce products and services. Do you effectively manage your supplier relationships to ensure that you obtain the total lowest cost of the products and services you buy? Are you efficiently sourcing, moving, storing, and inspecting the raw materials you use?
- **Producing products and services:** At the heart of your operational processes is the production of your product and service. Are you efficient at production, thereby lowering production costs and increasing your asset utilization? Are you effectively producing your product with minimal scrap, error rates, or returns?
- **Delivering the product or service to your customer:** Just like with managing your suppliers, you also have processes that manage your distribution. Are you efficiently delivering your products or services to your customers? Are you effective at reaching your customers through your distribution channels?
- **Managing operating risk:** Not all companies have direct operating risk, but most companies are exposed to some kind of risk associated with market fluctuations. Processes in this area deal with effectively and efficiently reducing costs associated with capital costs and taxes.

Erlach Computer Consulting, a small technology service company, improved the one key operational process that nearly doubled the company's revenue in one year. The process? Time tracking. Yes, the process may sound simple, but for Erlach, time is the company's inventory, product, and distribution medium. Starting from the top, management required every employee to track his or her time down to 15-minute increments. The company was tracking time previously, but not with 100 percent compliance. Now that the time is captured, Erlach can account and bill for previously unbilled time. Not only were the employees more conscious of their work day, but also clients were correctly charged for the services they received.

Customer management processes

Customer management processes cut across all your customers — current and new. In evaluating your performance, written or unwritten, your organization goes through the following processes when acquiring and serving your customers:

- **Selecting customers:** Are you identifying the right customers whose problems you can solve? (Chapter 9 helps you identify your key customers.)
- **Acquiring customers:** A quick way to evaluate this process is to look at your customer conversion rate. How many prospects are you turning into customers? How effective is your marketing strategy? Is your message the right one, and does it hit the right people at the right time? What's your sales cycle? Has it improved from last year?
- **Retaining customers:** Assuming that you've landed the right customers and are able to deliver what you promised, your customers should be sticking with you. While you're acquiring new customers, you still want to take care of the old ones. Word of mouth is also important here. When your customers are highly satisfied, they tell their friends.
- **Building relationships with your customers:** Are you growing your relationships with your customers, or are they stagnant? You can measure this success by seeing whether your customers are buying more from you year after year.

Scandinavian Airlines realized the importance of managing its customers' relationships by breaking down customer relationship management processes to their most basic, uncomplicated level. Jan Carlzon, CEO, says, "Last year, each of our 10 million customers came in contact with approximately five SAS employees, and this contact lasted an average of 15 seconds each time. Those 50 million 'moments of truth' are the moments that ultimately determine whether SAS succeeds or fails as a company."

Relationship management processes

Organizations don't operate in an isolated pool with just their employees and their customers. Instead, companies and departments have relationships with the communities they operate in, governmental agencies, and partners such as other companies, industry associations, and maybe even competitors. Your company may need to manage relationships with all or a few of these entities because everyone is a piece of the bigger picture.

These relationships break down into the following areas and processes:

- **Environmental sustainability:** If your company impacts the environment (what business doesn't?), how effective are you at managing your resource consumption, water and air emissions, waste disposal, and overall environmental impact?
- **Employee well-being and compliance:** How's your employee health and safety performance? Are you efficiently taking care of your employees to minimize any safety accidents or repetitive stress injuries?
- **Community contributions:** Are you investing in your community through nonprofit organizations or other community programs? Small organizations tend to take a hit-or-miss approach to this area, meaning that they don't consistently contribute to an ongoing charity. Consider the time and energy savings with a consistent community outreach program.
- **Alliance management:** Are you efficiently taking care of the organizations you work with? Do you have a consistent approach to managing these critical relationships? Are you effective with your alliance? In other words, are you working with the right ones?

Maximizing profits is just part of running a big business, according to John Mackey, co-CEO and cofounder of Whole Foods — the nation's leading natural and organic grocery chain with $4.7 billion in annual sales. He feels there's a larger trend toward businesses having a greater responsibility in society. Employees, customers, and shareholders all want their businesses to be good corporate citizens. Mackey believes that profits and being a good citizen go hand-in-hand. He puts his money where his mouth is, with 5 percent of annual net profits going toward charitable causes as well as numerous community programs.

Innovation processes

The fourth part of reviewing your processes involves taking a look at your creativity. If you're not innovating, you're dead. (At least that seems to be the general consensus of the business community, but I've yet to see anyone keel over!) Without innovation, anyone can imitate what you're offering after a period of time. Also, business gets pretty boring if you have the same old stuff. Busting out of the old mold keeps things exciting and employees engaged. Here are the four procedures necessary to make innovation part of your business:

- **Identify market opportunities for new products or services.** How effective are you at anticipating customer needs and uncovering new opportunities? What are your customers telling your employees (who speak with your customers most often) about their needs?

- **Manage the ideas in your innovation pipeline.** Are you effectively choosing the right products and services to potentially move into full development?
- **Design and develop the new products and services that are worthy and that leverage your capabilities.** Are you efficiently moving products and services through the development stages by reducing time and costs? Or do new products languish until they become stale?
- **Bring the new products and services to market.** Are you efficiently getting your new product or service in front of your current customers? Do they know about all the offerings you have? What's the time to market for your new products, and how will they sell the first year?

How do you know if you're efficient and effective at innovating in general? Your *new* products and services sell. That's the metric for all the preceding processes.

"Pound for pound, the most innovative company in America is W.L. Gore & Associates," according to *Fast Company,* a well-respected monthly business publication. W.L. Gore is known for its premier brand Gore-Tex, as well as other innovative solutions for the electronics, medical, and fabric industries. How does W.L. Gore do it? It operates on five key philosophies that dictate how the company is run:

- **Work in small teams.** With small groups, the company is able to respond and innovate quickly.
- **Don't establish rank.** Instead of a rigid chain of command, which can delay decision making, the company eliminated rank. All employees are equal.
- **Everyone can lead.** Without rank, every employee has the opportunity to be a leader.
- **Take the long view.** Great innovations can sometimes take years, not months. By recognizing this time frame, the company doesn't demand results for quarterly shareholder reports.
- **Celebrate failure.** Success requires failure. By celebrating failure, the company encourages employees to test every new idea because you never know which one may be a runaway success.

Other important process areas

Other process areas are important and support the previously discussed processes. These processes don't stand on their own or exist without a process that tangibly produces results. However, highlighting the following three supporting areas makes every organization run a whole lot smoother.

Technology

Technology (IT) in and of itself isn't a strategy. Virtually everyone has access to the same technology, so technology can't give you a competitive advantage. What you do with your technology is a different story. Figure out whether it makes you faster or slower. Technology should make every other process in your company run smoothly and more efficiently (if selected and implemented correctly). To evaluate your IT, consider the following two questions:

- Do your IT systems improve the overall operational efficiency of your organization?
- Does the technology platform let employees take the best care of your customers?

Not to oversimplify systems and decisions, which can be very complicated, but instead of getting caught up in the details, these questions help you look at the big picture. What's the strategic decision you need to make in order to improve either your top or your bottom line? IT should be regarded as any other expense instead of a cost center. Is your IT yielding a return on investment (ROI)?

Communication

Another big topic that plagues every organization (and every relationship) is communication. If you can get this right, you can retire tomorrow. That's unlikely to happen, though, so the success of your strategic plan rests on your ability to communicate the plan to your employees. While you're assessing your internal operations, assessing your communication methodology is an important area to review, too. As with the other areas in this section, good communication supports your core processes.

Some of the best corporate leaders in the world can tell you that you can't over communicate. No one ever complains about being too informed. As with your strategic plan and any other critical initiative in your organization, follow these simple guidelines:

- Make sure that your employees hear and understand your message completely. Having three key points to illustrate your message works the best.
- Communicate the key message points again.
- Repeat the message over and over again in different settings so everyone knows and is completely clear on your points.

Productivity

Improved productivity happens when you work smarter with the resources you have or get the same results in less time. Being busy isn't necessarily being productive. Isn't everyone busy? Who isn't? And you may feel productive, but you're only productive if you're producing results that move the company forward. Your time is a highly valuable asset to your organization, so use it wisely. *High-value activities* — those that are directly related to getting and servicing your business — are the ones that contribute to bottom-line results. Here are some examples of high-value activities:

- Communicating with your clients
- Making sales calls
- Managing your employees who deliver your products and services
- Producing your product or service
- Serving your customers
- Writing proposals

Think about how much time you deal with e-mails that have nothing to do with customer communication, like spam. According to Nucleus Research, the average employee receives 21 spam messages each day. Spam costs U.S. corporations on average $712 per employee per year. Multiply that by the number of people in your company who have desk jobs. Ouch!

E-mail is a low-value activity. What a great way to waste time feeling productive. If you spend a total of two hours out of an eight-hour workday on e-mail, that's 25 percent of your time. Unless that 25 percent of your time is producing at least 25 percent of your total income, it's a low-value activity. Now granted, e-mail can be a timesaver but is only a high-value activity when you're communicating with your customers.

Chris is a sole proprietor who owns Amplitude, an organizational assessment and employee training company. In a day where she isn't doing a full training session, she may write a proposal, go to lunch with a contact from a networking event, make some prospect calls, pay her bills, and organize her files. All these activities are important, yet only writing the proposal and making prospect calls directly brings in business. Chris's productivity improvement comes in making more prospecting calls and spending less time paying bills. In fact, she recently hired an assistant with the extra money she made from one additional sale.

Checking Your Profit Margins

Are you ready to make more money in your business? Who isn't? Even if you're running a nonprofit or government agency, you're always looking at improving your profit margins. Your *margins* tell you how much is left after you've paid your direct expenses. In the SUV analogy, your margins tell you how much gas is left in the tank when you arrive at your destination. So what's the secret to making more money? Stop doing things that lose money. Now, before you roll your eyes, don't overlook the simplicity of this statement.

Here's a classic example of losing money: A mid-sized, business-to-business software company realized that every dollar of revenue generated from its marketing campaigns cost the business about $1.20. Result: The marketing campaign is costing more than it's worth ($1.00 – $1.20). Attributing marketing dollars directly to the sales generated can be a rude awakening.

Ready for some ideas on how to improve your margins? As you read through the lists of ideas in the following sections, keep adding to your list of strengths and weaknesses.

Identifying cash creators

As most organizations seek long-term sustainable operating models, cash creators aren't focused on the bottom line; rather they're about moving cash more quickly into and through the organization. Think about how the Great Recession helped people get lean and put some of these practices in place to stay that way.

TIP

Here are some ways to identify quick cash creators that yield lasting results in a short time:

- **Do an expense shakedown.** Take time at least once a year to scrutinize each and every company expense. Remember that old habits die hard. Evaluate your travel expenses, telecommunication expenses, insurance costs, subscriptions, and so on. If the expense doesn't contribute to your company's profitability, eliminate it. You're just about guaranteed to find areas in which costs can be reduced or cut out entirely.
- **Clip coupons.** Okay, not exactly coupons, but find good deals on business services. Everyone from Costco to Microsoft is catering to the small- to mid-sized business market. Make those companies win your business by comparison shopping. This idea is great when you're talking telephone or cellphone plans, suppliers, or even interest rates on company credit cards.
- **Increase your prices.** Not everyone can increase prices. But if you can back up your price increase with better products, service, and quality, you're likely to keep all your customers. Most people are accustomed to the idea of getting what they pay for. (I've heard the advice of increasing your prices 10 percent per month until you lose 10 percent of your business. Then stop. You may try it again when you improve your products and services. The concept is interesting, and it may have some value for your business.)
- **Be clear about your payment terms.** From the get-go, institute a consistent and firm payment process. Most customers appreciate your professional approach if the way you do business is clear.

  WARNING!

  You may consider letting your clients make payments over time, but the costs of having customers who pay late is significant, not only on the cash side but also on time spent on collections.

- **Ask for more business.** Do your current and past clients know about all the services you offer? Not only should you educate your customers annually about what you offer, but you should also ask for more business. Chances are you'll get it. Head to Chapter 8 for more on this subject.

Detecting cash drains

Most organizations intrinsically know where the drains are. Plugging the drains is more about breaking down institutional barriers than it is about implementing the change itself. Brace yourself for the hard conversations and tough choices, but know that you'll be rewarded in the long run.

Check out the following ways to detect cash drains and improve your margins:

- **Fire loser customers.** Remember that you're in business to make money. Customers that are costing you money need to be evaluated. The reality is that some customers aren't worth having, even though you spent time and money getting them. Examples of these types of customers include:
    - Those who take up too much of your time compared with the profits they generate
    - Those who consistently fail to pay on time
    - Those who always want more but don't want to pay more
- **Market wisely.** No matter what, marketing can be expensive. Whether you're spending money on a TV campaign or paying your employee's salary while she attends a networking event, you need to make sure that your marketing dollars are well spent. With marketing dollars, you need a tangible ROI. If your marketing strategy can't justify the cost, replace the plan with something better or stop what you're doing and save the money until you can figure out a better solution.
- **Break even.** Another common cash drain for service firms is inadvertently charging a lower billable rate than your hourly breakeven rate. The *breakeven rate* is the cost per hour to keep your doors open. If you're selling your time, which is your inventory, for less than your cost of overhead, you have a negative profit margin.
- **Keep a "Because we've always done it that way" list.** Do you ever wonder why you do something a certain way? If the answer is, "Because we've always done it that way," you may have found a time- and money-waster in your business. If you find yourself saying "Because we've always done it that way," about a process, put the process on the list to be evaluated.

    One of the biggest culprits is producing reports. Check to make sure that the reports you produce are actually being used. Look for other areas where changes can be made or that can be completely eliminated in order to save money.

Benchmarking your place in the pack

Benchmarks are surveys and assessments that help determine how well your company performs compared to other companies in your industry or business size. Following are just a handful of benchmarking tools available:

- **BizStats:** Visit www.bizstats.com for instant access to useful financial ratios, business statistics, and benchmarks. BizStats has effective and understandable analysis of businesses and industries. You can benchmark a business in five seconds for free.
- **Business Report Card:** This assessment helps companies pinpoint strengths and weaknesses, capitalize on an existing client base, develop invaluable networks and alliances, and increase profitability. To see whether you're making the grade, go to the Business Report Card at www.mybusinessreportcard.com.
- **B2B Benchmarking Association:** This association brings together a variety of companies for the purpose of process improvement and identification of Best Practice companies through benchmarking. Check it out online at www.b2bbenchmarking.com.
- **BizMiner:** Check out www.bizminer.com to produce a granular industry statistical report for your industry. The site offers industry financial analysis benchmarks for more than 5,000 lines of business and industry market trends on thousands more. Report access requires an affordable subscription fee.
- **Fintel:** This organization has both free and paid access to a financial benchmarking database of privately-held companies. Two products to help your benchmarking include an industry metric report and a business scorecard. For more information, check it out at www.fintel.us.

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