SMALL BUSINESS HANDBOOK

How to review your business to achieve stable growth and profits

A comprehensive guide as to how small businesses operate

This handbook will help both the owner / manager of a small business and the professionals who advise them

An invaluable resource to help family businesses grow and prosper

Martin Harrison

SMALL BUSINESS HANDBOOK

How to review your business to achieve stable growth and profits

Martin Harrison

This handbook will help small family businesses who have between 5 and 50 staff to grow and improve their profits.

Many owner managers of small businesses have little formal management training, they have learnt it all on the job. This handbook is very comprehensive (over 590 pages including 170 exhibits and examples) and covers most subjects for running a small business.

This handbook is a valuable resource to the professionals who help and work with owner managers of small businesses. It helps to fill in any gaps in their knowledge and experience and can be used as a reference document.

Family managed small businesses are very different from medium or large businesses. Most business books are aimed at the larger business or the high growth small business. This handbook explains the best practices, processes and methods to enable small family businesses to grow at a steady rate.

Martin Harrison is a chartered engineer and has been an independent management consultant and trainer for over 20 years. He has carried out business reviews and business strategy projects for over 500 small businesses.

CHAPTERS

Acknowledgements

I wrote this handbook because, having spent over 20 years helping small businesses as a management consultant, I needed to define how small businesses work and get some of the ideas and theories out of my head and down into a handbook.

Most of the ideas in this handbook are existing ideas and theories interpreted for small businesses. I am grateful for the enormous help, openness, ideas and support given to me over the past 20 years by over 500 owner / managers of small businesses, by the Account Managers and PBA's from various TEC's and Business Links, and by the large number of self employed management consultants and accountants.

I have acknowledged other people's works, ideas and copyright when I have known it, and if I have been remiss in any areas, please email me and I will make the appropriate correction. Most of the quotes are generic and have been said or written by many people in a variety of similar ways.

Furthermore, because this handbook is self published, it can easily be edited. I warmly welcome any comments or additions to this handbook, preferably by email to martin@qualityinformation.co.uk.

Prices

This handbook is sold directly from Quality Information (martin@qualityinformation.co.uk) and selected resellers for the following prices:

Individual printed handbook	£55.00	no VAT in the UK
Adobe Acrobat	£19.00	including VAT

Publisher - Published by Quality Information

First edition printed version
ISBN 0-9546954-2-9

ISBN 0-9546954-2-9
9 780954 695422

First edition ebook version
ISBN 0-9546954-3-7

ISBN 0-9546954-3-7
9 780954 695439

Earlier versions of the handbook were published as Business Reviews for Small Businesses
ISBN 0-9546954-0-2

Contents

Chapter 1 INTRODUCTION TO BUSINESS REVIEWS

A business review carried out over two or three days can be a most useful and cost-effective activity for a small business, especially if it is carried out by an independent person. The objective of this handbook is to define a process for carrying out a business review of a small business and the best practices, processes and methods to enable the small business to succeed.

This handbook should provide the owners / managers of small businesses and the professionals who are advising or assisting them with methods and advice on how small businesses can be improved. This handbook is based on best modern practices as they are applied to small businesses.

This introduction is split into the following sections:

1 Target audiences for this handbook
2 The structure and layout of the handbook
3 What is a business review?
4 The process for carrying out a business review
5 Glossary

1 TARGET AUDIENCES FOR THIS HANDBOOK

The target audience for this handbook includes:

- The owners and managers of small businesses with between 5 and 50 staff.

- The professionals who advise and assist small businesses, including accountants, bank managers, personal business advisers from Business Links / Small Business Services and independent consultants.

2 STRUCTURE AND LAYOUT OF THE HANDBOOK

This handbook has been written and laid out to be used as a reference handbook, not necessarily to be read from beginning to end.

Chapter 2 Strategic Overview, should be read first as this gives an overview of business reviews and the strategic aspects to look for in a small business.

Chapters 3 to 18 then build on the strategic ideas given in Chapter 2. Chapter 8 Industry Sectors, gives examples and summaries the methods for specific industries and professions.

Chapter 19 Business Support shows how to access support and how to used management consultants.

3 WHAT IS A BUSINESS REVIEW?

Most businesses would benefit from an independent review carried out, typically by an accountant or consultant. The main objectives of this review could include:

- To improve the business and to make it more competitive.
- To increase the corporate and individual skill levels.
- To write a marketing plan in order to develop into new areas or to improve the methods for developing existing areas.
- To assist with succession planning when the owner wants to retire and needs a business plan on how to change the business so that it is suitable to be sold or handed over to their children.
- To carry out a review of a business before a merger or before developing a new product or service.
- To raise finance either from a bank or from a mixture of long-term loans, grants and/or venture capital.

Any type of organisation can benefit from a business review, it does not have to be a business; it could be a charity, a social enterprise, or a Government / Local Authority organisation.

A business review should cover most areas of the business, including:

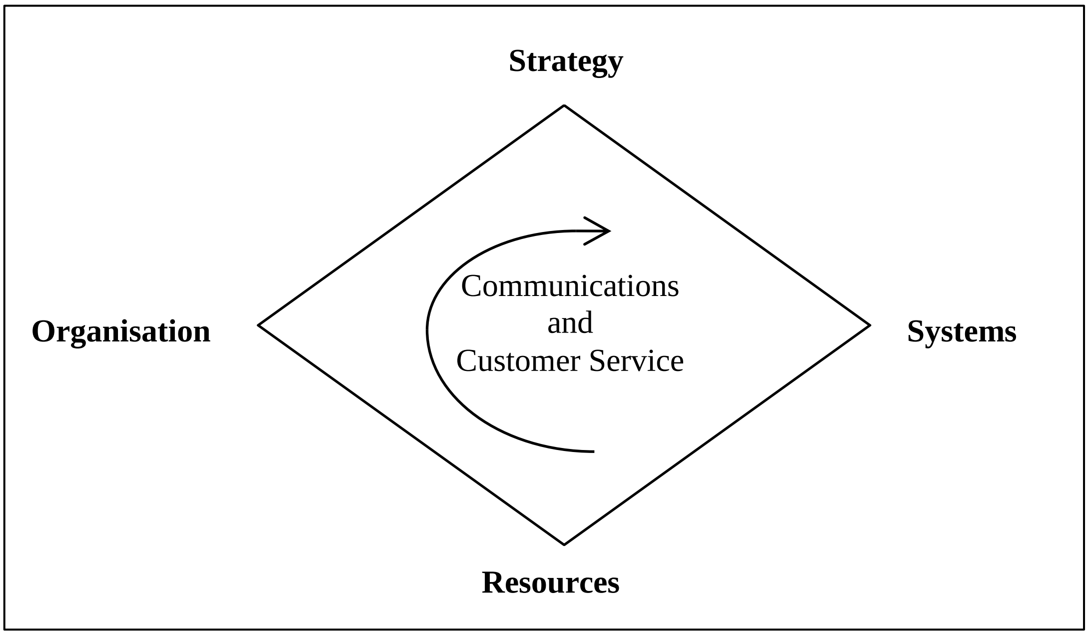
- Background, profile and values of the business, as you need to understand where you have come from.
- Mission, objectives and the strategy, as you need to define where you want to go and how to get there.
- Management and organisation, as these need to be suitable to help you to achieve your objectives.
- Services and products, including past, present and future.
- Production or delivery of the service to ensure that it is efficient and effective.
- Marketing, to ensure that the existing and proposed marketing methods are suitable for the market-place.
- Customer care, as this is one of the fundamentals of running a good business.
- Systems, processes, and ICT, as these ensure efficiency and effectiveness as well as good quality.
- Training and development required for the owners, managers and your staff.
- Financial, including the accounts, financial controls, management information, key performance indicators, budgets and cashflow forecasts.

One of the main benefits of a business review is that it makes the owner / manager sit back for a day and take an overview of the business. It also provides for comparison with similar businesses and ensures that the owner / manager’s ideas, values and visions are put down on paper.

For the more advanced small businesses who have already sorted out their strategy, leadership, processes and organisation, the business review could be based on the EFQM Business Excellence Model which is available in questionnaire form from www.qualityinformation.co.uk.

4 PROCESS FOR CARRYING OUT A BUSINESS REVIEW

The overall concept of carrying out a business review is given in the diagram below.



The first step is to determine the overall **strategy** which includes the vision, mission and values of the owner / manager and the objectives, strategies, business model, and business plan. These should then define the purpose of the business. See Chapters 2, 3, 4, 8, 13, and 15.

The next step is to review the **organisation** and the structure and to ensure that it is suitable for achieving the objectives and the strategy - over 50% of small businesses probably have the wrong type of organisational structure for the modern way of achieving their objectives or they have outgrown their present structure. The organisation also includes the owner / manager, the management team, staff, external resources, joint ventures, and suppliers. See Chapters 5 and 9.

If the organisational structure is wrong then there will be significant stresses and strains within the business which causes short tempers, high stress levels and low staff morale as well as reduced efficiencies.

The third step is to check that the **systems** and processes support the organisational structure. If the processes and systems have been designed for a previous strategy, then they will not necessarily be supporting the present business, nor necessarily helping them to achieve their objectives. A lot of processes are defined for hierarchical organisational structures without much empowerment, although the business might have become a team-based empowered organisation. See Chapters 8, 14 and 17.

The processes also include the way the business works, the management and reporting structure, meetings and communications, the ICT systems, accounts, etc.

The next stage is to review the **resources,** especially the people that the business has available and ensure that they have the right motivations, values, temperament, competencies and ability to help you to achieve the business objectives. This also includes the temperament and the values of the owner / manager which need to be in line with the strategy and objectives of the business.

Resources also include suppliers, subcontractors, equipment, products and the knowledge in the business. See Chapters 7, 9, 10, 16 and 18.

The final stage is to review the **communications and customer service** and ensure that the whole business works together to provide the products and services to the customers, at a profit, or to budget if it is a social enterprise. See Chapters 6, 11, 12, and 13.

Process

A business review normally takes two days spread over a two week period. The first stage is for the business reviewer and the owner / manager to agree times and dates and to allocate the time to the business review.

The next stage is normally to gather the business information. This process can be used to establish a rapport between the person carrying out the review and the owner / manager / staff of the business. A typical business information sheet is given in Exhibit 1.1.

The typical questions (or agenda) for the business review are given at the start of each chapter.

Normally the results, actions and recommendations for a business review are given in a brief report (under 15 pages long). This report could either be in a business review format of 'We recommend that ...' or can be in a business plan format of 'The business will do this...'.
See Exhibit 4.3 for a typical contents list of a business review report.

Over analysis leads to paralysis

Exhibit 1.1 Business Information

BUSINESS INFORMATION

Business name Trading names

History of the business Date founded By

Business status / number / registered office / VAT registration no

Address / Tel / Fax / Email / Web page

Principal bankers / accountants

Ownership and directors / partners

Name

Number of shares

Executive responsibility

Premises rent / terms of lease

Purpose of the Business Review / Business Plan

Turnover / profit Balance sheet value

No of staff / family involvement

Type of business (eg make for stock / stockist / service)

Principal activities / turnover by activity / typical order value

Customers by segment / turnover by segment

Seasonality

Location / How significant?

Key issues

First impressions

5 GLOSSARY

Initials	Expanded
ARR	Accounting Rate of Return
BP	Business Plan
CNC	Computer and Numerical Control
CRM	Customer Relationship Management
CS	Customer Service
DCF	Discounted Cash Flow
EDI	Electronic Data Interchange
EFQM	European Foundation for Quality Management
EIS	Enterprise Investment Scheme
FD	Finance Director
Five P’s	Product, Place, Price, Promotion, People
GM	Gross Margin
GP	Gross Profit
H & S	Health and Safety
HP	Hire Purchase
HR	Human Resources (Management)
ICT	Information and Communications Technology
IiP	Investors in People
IP	Intellectual Property
JIC	Just in Case
JIT	Just in Time
KCN	Key Customer Needs
KPI	Key Performance Indicator
KSF	Key Success Factors
MD	Managing Director
MIS	Management Information System
NI	National Insurance
NP	Net Profit
NPD	New Product Development
NVQ	National Vocational Qualification
P & L	Profit and Loss Account
PAYE	Pay As You Earn (income tax)
PLC	Product Life Cycle
PR	Public Relations
QA / QC	Quality Assurance / Quality Control
QMS	Quality Management System
ROCE	Return on Capital Employed
SME	Small and Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats
T/o	Turnover
USP	Unique Selling Point
VAT	Value Added Tax
VOIP	Voice over the internet
VC	Venture Capital
WC	Working Capital
WIP	Work in Progress

Chapter 2 STRATEGIC OVERVIEW OF SMALL BUSINESSES

Analysing where you are, the business environment, your competitors, what products and services that you have and you want to offer and then defining the future objectives, policy and strategy for a small business, is a daunting task which is often done instinctively by the owner / manager. Most of the time the owner / manager gets it right and the business prospers. If they get it wrong, the business will often decline.

The purpose of this chapter is to define an analytical method to carry out a strategic overview of a small business. The first step is to gather information and to analyse the present situation both internally to the business and externally in the competitive world in which the business exists. You can then decide on the competitive strategy, the objectives for the business, the business model and the internal operations required to achieve them.

This chapter is split into the following sections:

1 Major strategic issues
2 Analyse your products and market sectors
3 Business environment
4 Competitive strategy
5 Internal operations
6 Risk assessment
7 Business model

Strategic Review Questions

The specific questions for the business review are given below. As appropriate these questions are for the past, present and future and look at both the internal strengths and weaknesses of the business as well as the external opportunities and threats.

Products and services / customers / markets

What are your main products and services?

Who are your main customers and how do they group into market sectors? (Exhibit 2.4)

What are their key customer needs (KCN)? (Exhibit 2.9)

How do your products and services meet these key customer needs?

How do your customers prefer to buy your products and services?

Business environment

What is the business environment in which the business operates?

What political, economical, social and technological changes are happening in this environment?

What are the effects of new technology, eg the internet, on your market place / industry?

What is the size and shape of the market? What market share have you got?

Who are your competitors and what are their activities? What are their strengths and weaknesses?

Which organisations influence your customers or could introduce or recommend you to them?

What are the complementary products and services and businesses?

What associations / trade organisations / magazines / exhibitions are there in your industry sector?

What are the key success factors for operating in this business environment and how do you compare to the competition? (Exhibit 2.8)

Strategic

Are there any major strategic issues which need to be addressed immediately?

How has the business developed internally over the past few years? (Chart 1 / Exhibit 5.1)

What is the future vision for the business?

What are your key objectives for the next year / three years?

What are your major strategies to achieve these objectives? (eg Ansoff Exhibit 2.6)

What is your competitive strategy? What are your unique selling points (USPs)?

What are the key risks to the business? (Exhibit 2.14)

If the business has over 10 staff, how does it perform against the 25 Key Issues to being a Successful Small Business questionnaire in Exhibit 2.15?

Products and services

How are your products and services perceived by your customers? Are they a commodity, niche or specialist? (Chart 2 / Exhibit 12.6)

Where are your products and services on the product life cycle? (Exhibit 2.5)

What are your future products and services and what is the product / marketing strategy for them?

How can you enhance your products and services to make them more attractive to customers?

Price

What is your pricing policy?

Do you have the right business model and what is the cost model of the business? (Exhibit 2.7)

What are your gross margins per market sector?

Getting your products and services to your customers (Place)

How do you get your products and services to your customers and end users, eg distribution?

What is the supply chain for your business and where are you in it?

Promotion

How do you promote your products and services?

What does marketing and your brand mean to you and your customers? (Chart 5 / Exhibit 12.1)

What is the best way to promote your products and services, eg assertive or demonstrate competence methods?

People

What is your leadership style, temperament and values? Eg partnering, aggressive, hunter, farmer.

Is it suitable for your market place?

Who are your key people?

What are your attitudes to innovation, empowerment, and delegation?

Do you have the resources to deliver your promises?

Are you an innovative business and do you encourage and support innovation?

Processes

What are the key processes required for you to operate in this business environment?

Do your key processes match your products and services and your customer's needs?

Are your computer systems (HW & SW) up to date?

Performance

What are your service and performance levels, eg delivery, quality, repeat business etc?

Are you a customer-orientated business? What is customer service? (Chart 4 / Exhibit 11.1)

What are your key performance indicators? (Exhibit 14.8)

Financial

How do you do your management and financial accounting? (Chart 6 / Exhibit 17.1)

Review the profit & loss accounts, balance sheet, and cashflow forecasts.

Review the key ratios, debtor, creditor & stock days, gearing, and liquidity

What is your breakeven point? Review 'Improving Performance by 2%' (Exhibit 2.13)

1 MAJOR STRATEGIC ISSUES

When carrying out a business review, there are often some major strategic issues that need to be tackled first before any of the longer term analysis and planning can be carried out. Typical major strategic issues include:

- Is the business viable and solvent? Is the business strong or weak? Does it make a profit?
- Have any dramatic events happened in the past year or are any about to happen?
- Is the temperament of the owner / manager and the organisational structure suitable for the present and future shape and direction of the business or has the business outgrown its organisational structure?
- Are the systems and processes suitable for the present and future direction of the business or has the business outgrown its present systems and processes?

- Would you recommend this business or buy its products and services? If the answer to this question is 'no' then you need to analyse why not.
- Would you want to work for this business? If you would not enjoy working for this business then you need to analyse why not.
- The business has not made a profit for three years, its reserves are used up and the bank is refusing to extend the overdraft facilities.
- A major new competitor has opened up in town.
- The owner / manager wants to retire and hand over the business to their children.
- You are losing, or in danger of losing, key staff because of nepotism.

Do not let the opportunities presented by a crisis pass you by

SWOT Analysis

All businesses should periodically carry out a SWOT analysis and list their internal strengths and weaknesses and the external opportunities and threats. The SWOT analysis is the summary of the health of the business and is typically expressed either in a detailed action plan format by section (see Exhibit 2.1) or as a simple table. Sometimes it is expressed as a Key Issues List (see Chapter 8, Section 2 for an example). However, take care as many important ideas have been lost in too much analysis and complex presentations.

Development of the Business

As small businesses develop, the internal structure of the small business changes, typically as shown in Chart 1 / Exhibit 5.1 given at the end of this chapter. The turnovers given in this exhibit are very approximate as they depend on the type of industry that you are in or the services that you offer. For example, a stockist could have a turnover of capital goods of £1 million and still only employ four people, while a training business with a turnover of £1 million could be employing either directly or on an associate basis, up to 40 people.

During the analysis stage of a business review, you need to determine where on this chart the business is, and whether it is happy to be at that level. Often the turnover of a small business can grow while the internal structures to control that turnover do not, hence profitability suffers (or can be dramatically increased in the short-term) and the business feels unhappy or unstable.

At this stage the owner / manager has to decide whether to:

- Continue on as they are doing.
- Change the internal organisational structure and, to a significant extent, their own culture and methods of leadership.
- Revert back to a more comfortable level.

Get better before you get bigger

Exhibit 2.1 SWOT Analysis

This business makes components for the automotive industry, present turnover is £3 million with 40 staff.

	Strengths	Weaknesses	Actions
Products & services	Specialist components using CNC high precision grinder. Access to other CNC machines and in house painting, testing and assembly	Machine is working only 50 hours per week, needs 150 hours per week	Same type of products and services, just get more work for the CNC grinder
Customers & Markets	Two 2nd tier major blue chip customers and bits for others	Only two and on a sub-contract basis	Marketing plan to obtain 7 good customers, 4 in automotive, 3 in other industries
Strategy and competitors	Moved from commodity to partnering Competitive advantages as only 12 CNC high precision grinders in UK.	Our capacity and capability is not known in the market place	Promotion plan. Watch the margins, at least 30%. Obtain 1st tier supplier status, although most work will be at a lower tier
Leadership	Partnering and automotive attitudes High values	Only one person!	Need deputy. Will need a holiday. Consider a mentor. Define and publish vision and values
Management and staff	Empowered supervisors and staff	Management team not in place and squabbling	Need management team urgently especially with 40 staff
Staff	Happy, well motivated staff Family aged local staff	Bits of skills matrix and training plan	Need skills matrix, training plan and competency based appraisals. Need family friendly staff policies
Efficiency & quality	Good. JIT pull system in place. 4% internal reject on painting. Continual improvement in place	Poor in main customer to whom we are a subcontract supplier because of inspector mentality and little empowerment	Reduce dependence on main customer if they do not improve. Need JIC stock to cover. Keep up the continual improvement
Costings and KPI's	Value engineering and product costing in place	KPI's not defined. Accounts are done externally. Little management information	Define KPI's. Need information for managers. Need information on display for staff. Bring accounts in house
Operations and suppliers	In place and under control. 3 prime suppliers with partnering attitudes		
Facilities and equipment	CNC high precision grinder, access to other CNC machines	Lack of crane for moving components and tool changes. Short of space	Purchase crane £90k Need to extend factory

Exhibit 2.1 **SWOT Analysis** This business makes components for the automotive industry, present turnover is £3 million with 40 staff.

	Strengths	**Weaknesses**	**Actions**
Customer service	Automotive partnering attitude	Not in writing	Implement CS policy, standards and questionnaires CS training for managers and staff
Marketing	Good business, staff and equipment	No marketing plan	Marketing plan. Profile and website Define brand pyramid
Processes, ICT and systems	Process maps and product specifications in place Empowered staff. Doing Kaizen continual improvement	Need ISO 9001 and TS 16949 H & S weak. Need environmental effect analysis	Get ISO 9001 and TS 16949 within six months Implement HS(G)65 H & S system. Need COSHH assessment. Do environmental effect analysis
Financial	Invoice discounting in place for advance of up to £400k for £5k fee and base plus 3%	Not yet ready for high growth to £3m to £7m in 3 years.	Watch the cashflow and the margins Investigate all grants

	Opportunities	**Threats**	**Actions**
Products and services	Have the CNC high precision grinder and the in-house painting and assemble, now get the usage up to £7 million t/o	If there is a shortage of CNC high precision grinders lots of work comes in at good GP. If there is a surplus, the GP & prices plummet. Presently a shortage	Marketing plan. Market research to identify appropriate high value products which can support our 30% margins
Competitors	To take work off the competition, normally by price or capacity	Competitors could take work off us if our customer service slips	Identify key success factors and analyse all competitors. Make sure we are the best, especially in customer and technical service and being the nicest people to work with
Customers	We need 7 good customers with high added value products.	Recession	Get 7 good customers, spread over different industries to protect against recession. The components we make must be vital for our customers' products so that it is difficult for them to drop us
Operations	Other CNC machines to complete the equipment capabilities	Equipment breakdown Staff shortages	Preventive maintenance programme Arrange contingency plan to use other big grinders Carry out risk assessment. Prepare plan for looking after staff

Business Model

The business models have changed dramatically over the past ten years and banks and government organisations have come round to the idea that you do not have to manufacture your products yourself.

Consider the business model given in Exhibit 2.2 for a medical devices business. This is a virtual organisation employing 8 people and turning over in excess of £1 million per year with high profits. Its risks are also low because it has little money invested in it after product development and certification costs, it has low overheads and it can react quickly to market changes.

Exhibit 2.2 The Business Model for a Medical Devices Business
The Virtual Organisational Structure

The business makes a range of medical devices which it sells or hires to the NHS. The turnover is £1 million and growing, with substantial profits.

The business is a design, new product development and marketing business with external product development and subcontract manufacturing. The business model is shown in the organisation structure below.

New product ideas Product derivatives Advisory panel Professional advisors	Managing Director / Owner Strategy New product development Finance

Product Development	Manufacturing / assembly	Marketing	Local marketing / selling	Administration
External companies	Subcontracts	Employed Marketing Director	Employed manager and 3 staff	Employed manager, one staff & bookkeeper
Mechanical Electronic Software	Parts Assembly Distribution Service & parts	Agencies Distributors Exports Brochures/web	Local market Hire Demos Training	Administration Accounts Records Customer service Sales orders ISO 9001

The managing director / owner is the ideas person with the technical and industry knowledge assisted by the marketing director, who does not own any equity but is paid a substantial salary and bonus.

New product ideas and product derivatives come from a range of sources, including from patents and from universities and hospitals. The ideas are acquired, either for free, cash or royalties and then developed into products. Joint ventures are considered risky because of unrealistic aspirations of the other parties.

Most product development is subcontracted to mechanical, electronic design or software companies. Payment can either be per design or on a royalty basis in return for continued product development, value engineering and market engineering.

The assembly company is responsible for coordinating the suppliers of parts, assembly, storage, delivery, warranty, CE and technical file, and holding and distributing spares, and servicing. The main suppliers normally have contracts with the business and deliver to the assembler. Payment to the assembler is by retainer, per product delivered, and customer service bonuses. The main suppliers and the assembler have full access to the sales forecasts and the designs.

The marketing director is responsible for marketing strategy and finding and managing the agencies, distributors and the export market. They are also responsible for all sales literature, the brochures, technical data sheets and the website.

Local marketing, sales and hire is carried out by employees so that the business can keep in touch with its market place and have customers for trials of new products and product derivatives. This section is under an employed manager with three staff and also looks after hire, training, demos for the marketing director and general logistical support.

The administrator is also a full time employee with one staff. They are there to provide a continual presence in the office, and full customer liaison and sales order processing. The accounts are subcontracted to a bookkeeper.

Most of the risky elements of running a business have been subcontracted out. The business can react quickly to changes in the market place and is not tied to any one company or supplier. New products can be sourced on a world wide basis on the most economically viable basis. The biggest risk is that the supplier / assembler designs an equivalent product and sets up in competition.

The real value of the business is the new product development skills and the marketing contacts, and to a lesser extent the existing products which only have a life cycle of ten years.

Growth

One of the major differences between small and large businesses is that most large businesses have growth as one of their primary objectives. In reality only the owner / manager (and any of the other shareholders and lenders which you have mortgaged the business to) can determine the strategy for growth. Businesses typically fit into various growth categories as shown in Exhibit 2.3.

- Most small businesses are lifestyle businesses and do not actually want to grow. They have stability and maintaining a decent business and income as their main objective.
- Some small businesses want steady growth, eg 10% to 20% per year, until they need a management team when they then need to double in size over three years to pay for the team.
- Some businesses are in decline normally because the leadership has gone tired or the products have reached the end of their life cycle.
- A few businesses want high growth, ie over 25% per year. These businesses have ambitious leadership and need a competitive advantage to succeed. They also need a viable business model and a good management team.

Exhibit 2.3 BUSINESSES AND GROWTH

Growth

Lifestyle Businesses

Comfortable leadership
Family owned

Me-too standard products and services

Growth equals inflations or below 5% per year

Steady Growth Businesses

Steady leadership

Nurturing attitudes
Customer service
Building relationships

Growth between 5% and 25% per year

Declining Businesses

Stale or tired leadership

Product life cycle problems
Competitive pressures
Lower customer service standards

Loosing best staff
Cumulative crises

Negative growth per year

High Growth Businesses

Strong leadership
Strategic management
Viable business model
Management team
Delegation and empowerment
Sharing out the equity
External investment
Thinking big
Market opportunity
Timing

Over 25% growth per year

Turnover

2 ANALYSE YOUR PRODUCTS AND MARKET SECTORS

Culture of Industrial and Retail Businesses

Before you define your marketing strategy, you need to be able to define where you are on Chart 2 / Exhibit 12.6 Culture of Industrial and Retail Businesses. If the products and services that you offer are a commodity product, ie there are lots of other people offering them and it is really all about price, then you need to set up your business accordingly to be efficient and effective, with a very high level of customer service. However, do not expect high margins.

Part of your marketing strategy could be to move your products and services and your client base up to the niche sector, whereby you are providing customised solutions and partnering with the client. Marketing in this area is much easier as generally you start to become the obvious choice and you get a lot of repeat business.

The specialist companies who are offering unique solutions and innovation are rare and these businesses normally have very few competitors. There are a significant number of small companies in the UK that only have ten competitors, either within the UK or world-wide. These businesses have a different marketing scenario as they need to let everybody know they exist, so that the customers who have a specific need can find them.

You need to identify where your business and your products and services are on this chart and whether your customers also perceive you as being in the same category. Which box do you want to be in and does the business have the right culture to deliver?

Typically, within each industry sector, eg manufacturing, there are various sub-sectors that have quite different cultures and temperaments. Various examples of this are given in Chapter 8 Industry Sectors. During the business review you need to determine which sub-sector you are presently operating in, as defined by your customers and the products and services you are offering, and whether this is the right sector for you to be in with respect to the temperament of the owner / manager and of the staff.

Unfortunately, products and services do move, normally downwards, between the sub-sectors, while the temperament of the owner / manager, staff and the business generally might not necessarily move with them. Hence the stress levels start to rise and the profits start to disappear.

Construction business with a turnover of £3 million

A small construction business with a turnover of £3 million analysed its turnover as follows:

- 40% of turnover came from open tender with a success rate of 10% and low margins
- 30% of turnover came from limited tenders with medium margins
- 30% of turnover came from repeat business based on a bill of rates and trust, with high margins

The business decided to get out of the 'Pit' and stop bidding for open tender work which was all about price. They identified the clients who need an innovative contractor with higher quality and customer service levels and entered partnering arrangements with them. They now make a higher profit from a reduced turnover and with a lot less hassle.

Analyse your Products and Market Sectors

Most small businesses have a limited range of products / services that they sell into a few specific market sectors. You should analyse each of the products and each of the market sectors, typically using a matrix, as this will give you an overview of the business. Exhibit 2.4 shows a typical Product / Market Sector matrix for a stockist and manufacturer of wet weather gear. More details on analysing your products and market sectors is given in Chapter 12 Marketing and Sales.

Typical market sectors include:

- Different sectors of industry.
- Different locations around the country, export, or different countries.
- Different seasons, eg the local populations all the year round and the tourists in the summer.

For each of the market sectors and for each of the products sold into the market sectors you should analyse or define the following:

- Turnover
- Contribution £ / margin %
- Working capital and cash requirements
- Potential for the future
- Competition

These figures would typically be expressed both as £'s and as a percentage. Sometimes it is beneficial to give both the present situation and the potential future situation, in order to see where the differences and opportunities are.

The term 'product' rather than 'service' is used because a product is normally much more defined than a service. Organisations try to buy a specific product that meets their specific need. Some businesses prefer to talk about the services that they carry out for their customers but the definition of the services can be diffused and hence the cost benefit to the customer is more difficult to define.

Products appeal more to the private preferences of the client than do services, so are more likely to be directly related to some identified business need.

80/20 Split

The 80/20 rule applies to a lot of marketing and business activities. For example:

- 80% of your sales will go to 20% of your customers
- 80% of your profit will come from 20% of your sales
- 80% of your sales will come from 20% of your stock

This split is very useful when you analyse your customers and products and helps you to decide which are the important ones, and which ones you should consider dropping.

Exhibit 2.4 Product / Market Sector Matrix for a stockist and manufacturer of wet weather gear

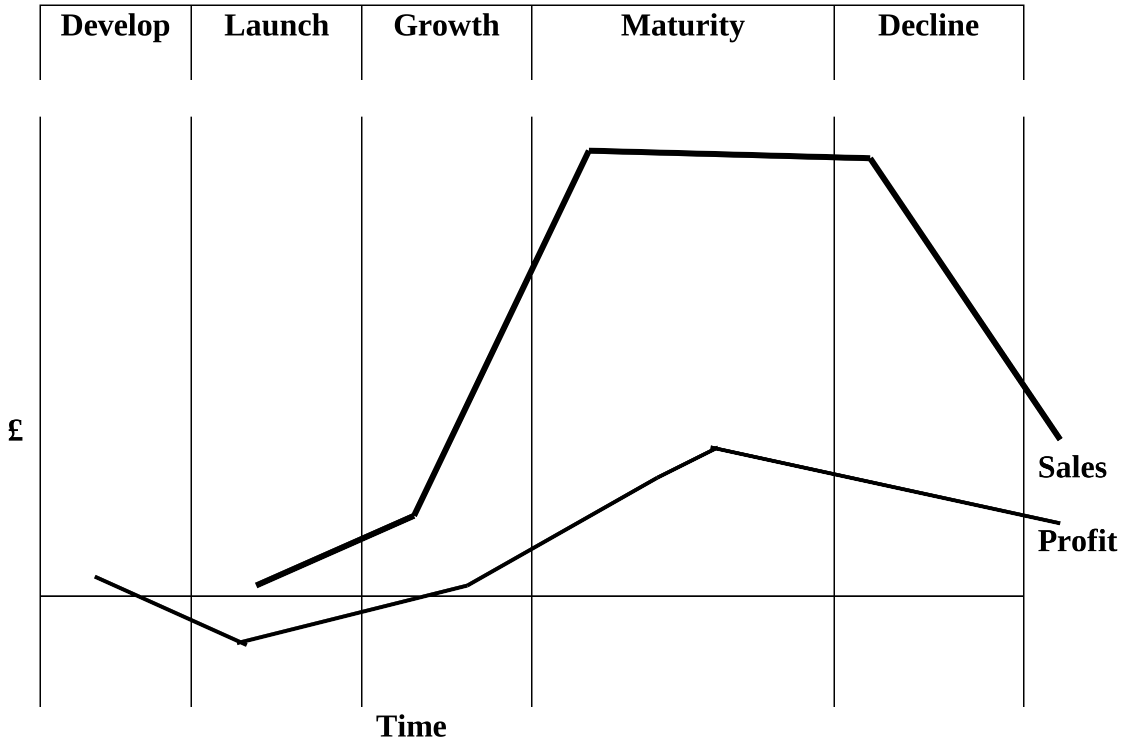
Market sector / Product		UK				Export		Overall Targets	
		Distributors / shops	**Large organisations**	**Outdoor activity centres**	**Internet / mail order**	**Europe**	**US / own label**	**Now**	**Two years' time**
Manufactured Wet Weather Gear	**Heavy duty wet weather gear** Specialist	T/o £260k 6 main shops Develop to 15 To t/o £460k	T/o £100k Develop to 10 large organisations To t/o £340k		Need a site Do market research	T/o £100k 10 main dealers No expansion Weak Euro	T/o £100k 2 main dealers Own label No expansion	T/o £560k GP 40%	T/o £1,000k GP 40%
	Light duty wet weather gear Less specialist	T/o £120k 4 main shops Under developed Develop to 14 To t/o £190k		T/o £120k 10 centres Develop to 30 centres To t/o £190k	? Decide later			T/o £240k GP 30%	T/o £380k GP 30%
Brought in Wet Weather Gear	**Brought in ancillaries to heavy duty wet weather gear** Specialist	T/o £70k Follow heavy-duty wet weather gear. Develop local market To t/o £140k	T/o £30k Follow heavy-duty wet weather gear To t/o £60k					T/o £100k GP 30%	T/o £200k GP 30%
	Outdoor waterproof clothing and ancillaries Commodity	T/o £25k Follow light duty wet weather gear To t/o £50k		T/o £25k 10 centres Develop to 30 centres To t/o £50k				T/o £50k GP 20%	T/o £100k GP 20%
Overall		T/o £475k To t/o £840k	T/o £130k To t/o £400k	T/o £145k To t/o £240k		T/o £100 To t/o £100k	T/o £100k To t/o £100k	T/o £950k GP 35%	T/o £1,680k GP 35%

Product Life Cycle

All products and services are subject to the product life cycle, typically as shown in Exhibit 2.5. Some products have a small timescale, eg promotional toys associated with DVD's, while other products and services can have a long product life cycle, eg Mars bars.

High tech products, especially those with a short product life cycle (eg 2 years) often suffer a dip (called the chasm) before the high growth can kick in. It often required a drop in price to get over this chasm.

Exhibit 2.5 Product Life Cycle



Culture of Business	Hungry	Hold on!	Steady Cost control	Motivation a problem
Organisational structure	Loose	Loose	Hierarchical or teams	Tight
Managing Director	Sales	Sales	Financial	Hard, lean and mean
Marketing	Innovative	Innovative	Mainly order taking	Order taking
Financial	Needs investment	Needs investment	Milk for cash Care with depreciation and overhead allocations	Milk for cash No Investment

When a new product is launched, the unit sales price can be high to recover the development costs, or for marketing reasons you can keep the price low to achieve market penetration. The product normally has a growth period which could be short or long before it reaches a maturity plateau.

However, what often happens during the growth or the maturity period, is that other businesses enter the market, certainly if the product is successful, with competitive products or even straight copies. Hence the unit sales price for the specific product can start to decline, sometimes quite rapidly. The original companies can then be squeezed out of the market and the new businesses take over, with lower costs, etc.

At one stage the overall sales will start to decline as other products replace the product or service. Sometimes the decline is dramatic, especially if a next generation, competing product comes onto the market. There might be no warning of this decline.

While it is good business practice to have a portfolio of products at various stages of the product life cycle, often small businesses just have one or two products and hence are operating, whether they like it or not at this stage, in that sector. Sometimes the products can be repositioned and relaunched by changing the perceptions and service levels.

The bottom half of Exhibit 2.5 Product Life Cycle, gives the culture of the business and organisational structure required when the majority of your products are at certain stages. For example, if you have products and operate in a market place that is mature or even slightly in decline, then the organisational structure is normally hierarchical or team based and the managing director needs a financial / cost cutting attitude rather than an overtly sales attitude.

Customer behaviours, needs and expectations

You need to analyse your customers, divide them up into the market sectors and determine how they behave and their needs and expectations. If you do not analyse the needs and expectations of your customers and match those needs and expectations with the benefits of your products, then your customers just will not buy from you.

You need to analyse how your customers found out about you and why they brought from you. Do you sell to them in the same way as they want to buy from you? If you are not a customer-orientated business and you try to sell to the customers to suit yourself and not to suit them, then sooner or later the customers will go to another supplier, even if their products are inferior to yours.

You must sell how the customers want to buy

Future Products / Marketing Strategy

Deciding on the future product and marketing strategy for a small business is one of the most risky decisions that an owner / manager takes. The level of risk is normally as shown in the Ansoff Matrix, Exhibit 2.6.

Marketing your existing products into your existing markets, ie market penetration, is low risk as you should know what you are doing and how to operate in that business.

Marketing the same products into new markets, ie market development, is medium risk, as you know the products and already have experience of them. Similarly, marketing new products into the existing markets, ie product development, is also medium risk as you know the markets and you can talk to your customers.

However, all product development, especially new product development as opposed to modifying existing products, carry a significant risk especially if they are not managed properly (see Chapter 7 Products, Design and Knowledge).

Developing new products to sell into new markets, 'diversification', is high risk and is normally to be discouraged with small businesses, except if you have specific skills. This is a major killer of small businesses. The risks can be reduced by recruiting specific individuals who have the knowledge and experience.

Exhibit 2.6 Ansoff Matrix

		PRODUCTS	
		Existing	**New**
MARKETS	**Existing**	Market Penetration **Low Risk**	Product Development Known Market
	New	Market Development Known Product	Diversification **High Risk**

Effect of the Internet on Small Businesses

Most small businesses should review what effect the internet will have on the business and the way they do business. With certain industries, eg audio CDs and DVD's, the on-line purchasing of music will probably mean that 50% of CD shops will have to close over the next five years. Singles music is already 70% downloads and the album market will soon follow.

With other industries, it might not make a significant difference, except that the cost to get and give information will be reduced by up to 80%.

See Chapter 13 The Effects of the e-Revolution, for more details.

A typical business can be broken down into Design, Manufacture and Marketing. The Manufacturing is the most expensive and most volatile and hence is often subcontracted out to India or China

However subcontracting Customer Support to India or China risks upsetting your customers so much that they change supplier.

Cost Model

All small businesses should prepare a cost model of its sales and external and internal costs, determine the utilisation of its resources and have a pricing policy. These three are interlinked. Details on how to prepare a cost model are given in Chapter 17 Management and Financial Accounting.

The purpose of a cost model is to enable you to decide what price you should be charging for a specific product or service and to control the expenditure in order to make the profits that you want. The prices that you charge, the associated gross margins and the working capital and cash requirements are the strategic numbers for a small business.

However, the price that you charge for a specific product or service will also affect the quantity of what you sell. For example, if you are a coach business selling day trips / holidays, you can have a high price which will normally mean a lower utilisation of the coaches, ie some seats will be empty, or you can have a low price and fill all of the coach seats.

Sea View Hotel

Exhibit 2.7 gives the cost model for the Sea View Hotel. This cost model summaries the hotel in numbers and indicates the areas where management action is required in order to improve profitability. The turnover is not high enough to give a reasonable net profit and hence investments in refurbishment as well as attitudinal changes in quality of service are required.

Hotels succeed because of their location, their facilities and the quality of service. It is not about advertising, it is about repeat business and reputation.

The rack rent for the rooms cannot be increased because the competition at this level of hotel is the 'Premier Inn' motels who charge around £50 per night, excluding breakfast. The utilisation, excluding Sundays, is low at 39% and hence the rooms need to be refurbished to at least 'Premier Inn' standard but with their own style and themes. With the increase in accommodation, there should be a corresponding increase in dinners and bar takings.

3 BUSINESS ENVIRONMENT

Structure of the Business Environment

All businesses operate within a structure and are often part of a supply chain going to the end users. A small business, especially when there are too many competitors in an area, or they wish to diversify or expand, can look at the business environment and move into other areas but with the same types of products or a change in service levels. The advantages are that they know the culture, the values and often the specifics of the trade. For example, a construction business which is threatened by a competitor reducing prices could move into plant hire.

Exhibit 2.7 Cost Model for the Sea View Hotel

	Actuals		Forecast			
	2009		2010		2011	
	£	%	£	%	£	%
Accommodation	£90,000	22.0%	£120,000	22.9%	£140,000	23.1%
Functions	£165,000	40.2%	£200,000	38.2%	£230,000	37.9%
Bars	£86,000	21.0%	£92,000	17.6%	£120,000	19.8%
Dinners	£45,000	11.0%	£72,000	13.8%	£75,000	12.4%
Lunches	£22,000	5.4%	£36,000	6.9%	£38,000	6.3%
Sundries	£2,000	0.5%	£3,000	0.6%	£4,000	0.7%
Total Sales	**£410,000**	**100.0%**	**£523,000**	**100.0%**	**£607,000**	**100.0%**
Food costs	£23,450	35.0%	£36,720	34.0%	£37,290	33.0%
Food costs for functions	£49,500	30.0%	£58,000	29.0%	£64,400	28.0%
Bar costs	£43,860	51.0%	£43,240	47.0%	£54,000	45.0%
Staff costs	£135,300	33.0%	£162,130	31.0%	£176,030	29.0%
Total costs	**£252,110**	**61.5%**	**£300,090**	**57.4%**	**£331,720**	**54.6%**
Directors remuneration	£23,000		£28,000		£28,000	
Marketing expenses	£4,000		£5,000		£5,000	
Rates, repairs and maintenance	£25,000		£45,000		£45,000	
Other overheads	£75,000		£81,000		£84,000	
Depreciation	£19,000		£23,000		£25,000	
Total Overheads	**£146,000**	**35.6%**	**£182,000**	**34.8%**	**£187,000**	**30.8%**
Interest on loans and overdraft	£27,000	6.6%	£36,000	6.9%	£45,000	7.4%
Net Profit	**-£15,110**	**-3.7%**	**£4,910**	**0.9%**	**£43,280**	**7.1%**
Capital employed ex. loans	£100,000		£100,000		£100,000	
Loans and overdraft	£300,000		£400,000		£500,000	
Return on capital employed			4.91%		43.28%	
Investment needed	£100,000		£100,000		£100,000	
Number of staff f/t equivalent	15		18		19	
Turnover per staff	£27,333		£29,056		£31,947	
Average cost per staff	£10,553		£10,563		£10,738	
Number of rooms	20		20		20	
Room rack rate	£45		£45		£45	
Room utilisation ex. Sundays	39.0%		53.0%		62.0%	
Room utilisation for Sundays	11.0%		11.0%		12.0%	

PESTLE Analysis - Political, Economic, Social, Technological, Legal, and Environmental

As part of a business review, all businesses should analyse the Political, Economic, Social, Technological, Legal and Environmental environment in which they operate.

What **political** changes affect the business in the past, now and in the future? What is the effect of government policy? Is this policy likely to change? How does current and anticipated legislation affect you? Are there going to be any increases in the licencing requirement or the legal framework in which you operate?

How does the general **economic** climate affect you? Are you affected by local recessions and how competitive is your market? Is it expanding or contracting and what is the level of demand? Can you actually affect the economic changes or do you just have to ride them out? While the UK might not officially be in recession, often certain market sectors or areas in the UK, eg construction or the North can be in recession. Certain businesses and products do well in recession and badly in the boom.

What **social** changes are happening? How do the attitudes, ethical standards and the general expectations of people affect you? Are there any demographic or other structural changes effecting you? For example is a by-pass about to be built around the town? If you are a luxury restaurant but the whole area around you is going into depression and the rich people are moving out, should you change the style of your restaurant?

How do the changes in **technology** affect the whole way that you run your business and the products and services that you offer? Technology is changing with the advent of the computer, at an ever increasing rate and you must analyse the technological changes and keep up to date. We are entering an information age which will have as dramatic effect on the UK - the way we do business and the way we live - as the industrial revolution had.

What **Legal** changes have been made and what new laws and regulations are proposed? How will they affect you?

How are you keeping up to date with the **Environmental** issues which are important to you, your business, your customers and to your staff?

Competitor Analysis

You should make a list of your competitors and analyse the following:

- What activities they carry out
- What activities they will be carrying out
- Market share
- Strengths / weaknesses
- Prices
- Typical customer base
- Customer service levels

How can you give a better customer service or provide a better product than your competitors and hence gain market share? How can you stop your competitors gaining market share off you? Who are the key people in the competitors (and is it worth trying to recruit them)? More details on competitive strategy are given in Section 4.

Stakeholders

The attitude of an owner / manager of a small business to the other stakeholders in the business varies dramatically from regarding them as irrelevant, to fully recognising that they have a real stake in the business.

Typical stakeholders can include:

- The employees and the staff, and their families
- Your customers and the whole supply chain
- Your suppliers and subcontractors
- Your family
- The local community
- The local authorities and the general society that you operate in
- Joint ventures / partnerships
- Complementary businesses

You should define who your stakeholders are and determine whether working with them as opposed to ignoring them would be better for your business. Often the stakeholders will be critical for the business, eg suppliers and customers, and you need to understand and communicate with them about what their needs and expectations are.

Small businesses should work closely with all of their stakeholders, set up positive actions to ensure that there is communication both ways and use and analyse their ideas. The attitude of the owner / manager and consequently the attitude of all of the staff in the business to internal and external stakeholders, is crucial for the success or otherwise of a small business.

Introducers and Influencers

Within the business environment, there are often organisations which will introduce you to their customers (and vice versa) or who influence the buying decisions or promotional activities between you and your customers and suppliers. You need to find out who these introducers and influencers are and ensure that you have a suitable strategy to affect their actions in a way positive to you.

In the same way there are certain organisations and people who could be detrimental to your business, products and services often because of who they work for. Again these people and their organisations need to be defined and a strategy devised in order to neutralise their effects.

Complementary Products / Services / Organisations

Within the business environment, you need to identify the complementary products, services and the complementary organisations to your own products and services and business. These complementary products often will have the same customer base as yourself and hence if you identify them and work with them, you are likely to save a vast amount of marketing expense.

For example, if you hire cranes, one of your main market sectors will be the construction industry. Other plant hire companies who also serve the same market sector, might not be hiring cranes and hence they are a complementary service and business. If you introduce each other to your customers, or even share marketing and promotional activities, it can greatly reduce the cost and be more effective.

Associations

As part of the business review, you should identify the appropriate business associations. These associations are often a very good source of databases and other marketing information. They include:

- Professional associates and institutions
- Trade and other associations
- Local Chamber of Commerce
- Registry and certification bodies
- Franchises, franchisees and franchisors
- Marketing associations
- Exhibitions and trade magazines

Joint Ventures and Partnerships

Occasionally with a small business, you get joint ventures and partnerships. These are much rarer with small businesses than with large businesses as, traditionally, the leaders of small businesses do not like working with other people who have equal authority, power and vision to them.

Before you enter a potential joint venture or partnership, work out the framework of how it will operate, in writing, and how it will be terminated. Make sure that you all have the same values and objectives. Trust what you emotions and feelings are telling you.

Licences to Operate and Legal Framework

These days a lot of businesses operate within a legal framework which requires them to have a licence to operate. Examples include:

- Pub licences
- O licences for HGV
- Professional qualifications for solicitors or accountants
- Nursing homes

You need to define the present and any future legal framework / licences to operate and ensure that you get them in good time. Operating without them is asking for trouble.

4 COMPETITIVE STRATEGY

Most small businesses are in a competitive situation and if they do not succeed in the market then their competitors will move in and take it from them. You should define your competitive strategy to ensure your survival and to achieve your objectives. Consider the following principles when defining your competitive strategy.

It is generally better to try to dominate a market sector using superior customer service and innovation in products and services, rather than just be one of the crowd.

It is often better to work with competitors, or to take their whole markets, rather than employ destructive tactics to try to destroy their reputation.

Competitive strategies which require head to head fights with the competition can be very expensive and destructive. It is often better to adopt a strategy of unrelenting attention to customer service and innovation.

- The ideal strategy is to make a competitor's products or services obsolete through innovation.
- The next best strategy is to create better ways of providing products or services.
- The next best strategy is to market yourself more effectively.
- The worst strategy is to attack a competitor directly as it often results in the ruin of all the businesses involved.

You do not want to create a situation where the customers mistrust everybody from that industry; eg double glazing companies.

If your customer base is already much larger than the competitors, then you can press the competition hard through aggressive service. You can dominate the situation with your market presence and spend your resources on research and innovation.

If, however, you only have a small competitive advantage over your competitors, then you need to talk to your customers, and with your competitor's customers, redefine and differentiate yourself and make yourself superior.

If you are equal with your competition, then look at individual market niches and market sectors within your customer base.

If you are weaker than your competition, look for niches that you can dominate. In this case, however, should your level of customer service and your products be inferior to your competitors, you seriously need to look at moving into different areas.

Leaders of the business need to understand competitive strategy. The leaders should know when to fight and when to retreat and how to use resources appropriately to the challenge at hand.

The leader needs to be enthusiastic and innovative and use accurate, timely information to make decisions. They must take their staff with them.

Compete on service, not on price

Pricing policy

The policy that you adopt towards pricing is a strategic decision. It could be to:

- Maximise profits
- Maximise sales
- Maximise utilisation
- Minimise the risk to the business

Charge as much as the market will stand, while keeping your costs as low as feasible

However most pricing in small businesses in the UK is based on:

- What the market can bear, ie the price is set by the customers or by the competition
- Or, on cost based pricing

The owner / manager of a small business has to decide whether to try to buck the price set by the market / competitors.

- If you go below it, then your competitors might just follow you down and the whole industry / sector makes a loss.
- If you re-position your product you might be able to charge more, but sell less, but make more profit.

Cost based pricing, which is quite common within small businesses in the UK, ignores the competition and customer demands and can sometimes lead to:

- Under pricing dramatically for a product and hence not making as much profit as you could.
- Over pricing for a product and hence not getting the sales or utilisation that you need to make a profit.

It is quite difficult for a small business to get the overhead allocation right for each product or service and hence even on a cost based pricing system, you can over or under charge.

If the competitors are setting the price, then you might have to improve all of your internal operating costs to make a profit and hence you need the cost model to determine what your actual operating costs are.

Customer based pricing is a better policy, ie determining what you think the market or the customer will bear and charging them accordingly. Again, you need the cost model to determine if you are going to make a good profit or not, using customer based pricing.

Large profits can be made in small businesses but you have to be aware that if large profits are being made, and people know about them, a competitor might copy your product or service and move in. At which stage your pricing will then become competitor based pricing and might have to be reduced.

If you have a monopoly for an area, then you have to ensure that you price your products so that you are still perceived by your customers to be giving good value for money and excellent customer service. A lot of small businesses, in reality, have a monopoly in their area, eg the only fish and chip shop in the village, and should adopt the policy of providing the best products, with the best customer service so that they have satisfied customers. An attitude of ‘I can do what I like because there is no competition’, is inviting competition to move in or customers to move out.

A small business might adopt a loss leader or a competitive pricing policy, whereby for a small range of the products or services they know they are going to operate at a loss, ie loss leader pricing. Loss leader pricing is sometimes used to drive a competitor out of the market. Small businesses should take a lot of care with aggressive pricing policies because they are normally short of resources and everybody can lose.

A DIY megastore sells M10 bolts for £0.68 for one while they are available on the internet for £3.02 for 100. The price is suitable for each market sector

Key Success Factors

By this stage, the business should be able to define the key success factors that are required to succeed in the market-place in which they want to operate. Typical examples of key success factors are given below and in Chapter 8 Industry Sectors. List your own key success factors and measure yourself and your competitors against them. Consider using the form given in Exhibit 2.8.

Key Success Factors for a Technical Equipment Manufacturer

- An understanding of the technical needs. In general, the equipment will be purchased by technical engineers who know what they are looking for, as opposed to non technical people who are buying a commodity.
- The quality of the design and the manufactured components must be excellent and must fully meet the specified requirements and expectations.
- Attention to detail must be excellent.
- The total operating costs are often more important than the initial equipment costs.
- The technical back-up and maintenance services must be very good and quick.
- Commercial awareness.
- High level of customer service and delivery always on time, as promised.

Key Customer Needs

As an alternative to the key success factors, you must be able to define the key customer needs and determine how you and your competitors are meeting them. The main need is always to meet the customers' requirements in full. Consider using the form given in Exhibit 2.9.

Key Customer Needs for a Compressed Air Products service business

We will become the obvious choice for all the factories within 30 miles who need compressed air because we will fully meet our key customer needs including:

- Good quality products that work well.
- Payment terms to suit the customer, eg buy, lease, hire, monthly SO, DD, etc.
- Full yearly maintenance contracts with one hour call out times.
- Full routine maintenance training for customers' staff.
- Preventive maintenance out of factory working hours.
- Excellent customer service, especially the service engineers.
- Excellent value for money as perceived by the customer.

Exhibit 2.8 Key Success Factors for a Drainage Business

Key Success Factors	How do we perform?	Competitor 1	Competitor 2	Actions to be the best
Utilisation and price	Price is fixed by the market place. Utilisation is 70%	Utilisation is 82%	Utilisation is 78%	Get utilisation up
Best people				Action plan to be the best drainage business to work for
Good reliable equipment	Old equipment	New well maintained equipment		Invest in better equipment
Excellent customer service	Too much fire fighting and bad tempers	They retain their customers and staff		
Efficient operation and just in time				
Good marketing strategy				
Job done on time and at the agreed price	Too many disputed invoices			
Partnering attitude	We are a bit confrontational			Define partnering attitudes and implement them
Use ICT and communications to cut down delays		PCs in cabs downloading drawings and uploading changes and pictures		Invest in ICT

Exhibit 2.9 Key Customer Needs (KCN) for Private Label Food Manufacturer

Key Customer Needs	How can we achieve them	How do we perform?	UK Competitors	Importing Competitors	Actions to be the best
Prices	We are a low cost producer	Need to continually monitor whether we are too cheap	We are 5% cheaper		Watch them.
Taste and perceived value for money leading to repeat sales					
Partnership and partnering	Security of supply Adaptability	Small runs		Price and longer delivery	
Consistent quality for the price range					
No complaints from customers		2 this year			
Delivery on time		100%			1 weeks stock of all finished products
Innovative products that sell and taste good		Slipping a bit			
In-store promotions					
Efficient production		Getting better but we have a long way to go		Cheaper labour	Need more equipment

Unique Selling Points (USP)

In order for a specific product or service to have a competitive advantage and to succeed, they need to have some unique selling points (USP's) which means that a customer will come to you rather than go to your competitors. You should define the USP's for each product in writing.

5 INTERNAL OPERATIONS

Leadership and Management Styles

All owner / managers have a certain leadership and people management style and are happy to delegate tasks, responsibility or authority to a greater or lesser extent, typically as shown in Chart 3 / Exhibit 3.3. If an owner / manager cannot delegate responsibility and authority then the size of that business is normally limited.

The comments by owner / managers about staff ranged from:

> 'Our staff are great, it is the main reason why we are doing so well.'

to:

> 'Can't get good staff anywhere, and they never stay.'

The successful owner / managers (who employ staff) normally have a delegating, empowering and coaching mentality, ie they have a strong sense of their own values about how the business should be run and they transmit these values by continual coaching and working with their staff.

Owner / managers who are not doing that well, are often more tense and also have corresponding problems with their staff, ie their tensions and stress are being transmitted to the staff. Unhappy staff cannot give a good level of customer service and often leave.

With small businesses, the attitudes and the quality of the staff are all important for the prosperity of the business.

Businesses should not generally have to advertise for staff as they should be the best employers in the area and have an attitude of really looking after their staff so that people automatically ring them up and want to work for them.

Leadership

The needs of the customers of small businesses are constantly changing. The successful owner / managers are changing their businesses, often dramatically, to keep up with the needs of their customers or the needs of the business for different products and different customers.

Leaders who have not changed and have not recognised or acknowledged the need for change, normally are not doing very well. Businesses that have changed, in general, are doing well and are making significant profits. The prosperity of a small business depends almost totally on the attitudes and abilities of the owner / manager.

Partnering

Partnering with your customers and suppliers as a management philosophy and attitude is now becoming normal although a lot of small businesses have not yet adopted it. More details on partnering are given in Chapter 9 Purchasing and Supply. Consider whether (or not) you agree with the Partnering Policy given in Exhibit 2.10.

Best Practice

For most products and services, there are 'traditional' and accepted ways of providing that product and service. However, these traditional ways are continually changing as the market and customer expectations change. You need to analyse the traditional and modern ways of conducting your business and determine the most successful. How does you business compare?

A lot of small businesses are not operating in accordance with best practice and their profitability is suffering because of it. It can have fatal consequences for the business. Exhibit 2.11 and Exhibit 2.12 gives two examples of best practice in Professional Service Businesses and in Manufacturing Businesses.

Innovation

Does the business foster a culture of innovation amongst its leadership, management and staff?

Innovation for products, services, customer care, new methods of delivering the service, attitude towards customers, internal ways of doing things, etc, are vital for a small business to enable it to survive. However, some businesses either at the leadership or management level, stifle innovative ideas and changes. In the medium or long-term, this leads to stagnation of the business and the competition taking their market.

Key Processes

The business should identify and list the key processes that are required to deliver the product or service efficiently and effectively. Typical key processes include:

- The manufacturing process
- The sales or marketing process
- The order taking process
- The dispatch process
- The quality control for checking the quality of service
- Complaints handling process

All key processes should be reviewed (see Chapter 14 Processes and Operations for more details) and made as efficient and effective as possible. Key processes include the people aspects, the methods of working and approvals as well as the equipment and the computer systems.

A lot of the key processes within small businesses can often be over bureaucratic; eg there are too many approvals, not enough empowerment of staff or modern technology and computers are not being used to their full extent.

Exhibit 2.10 Partnering Policy

PARTNERING POLICY

We recognise that we are in a supply chain with our customers and our suppliers and that we all have to work together in partnership to provide our products and services to the end user:

- To a high quality level
- Which conforms to the required specifications and needs
- At the agreed time
- For a price which is perceived as offering competitive value for money

…. otherwise the end user will just purchase off our competitors.

We will identify customers and suppliers who have the same attitude to partnering and actively seek them out to work with them.

We will set up and participate with our customers and suppliers in setting up mutual objectives which will include reducing the price while improving the quality and customer service.

We will set up and participate in continual improvement so that we can drive out waste in all areas.

We will set up and participate in agreed problem resolution processes so that minor problems are resolved quickly before they become major problems.

We will empower and inform our staff so that they can take decisions quickly and accurately.

We will actively promote:

- Just in Time (JIT) practices and so reduce wastage and stock holding
- Open, accurate and timely access to information and forecasts
- Integrated ICT systems and paperless systems

We will eliminate administrative red tape which is costing time and money and holding up the job. All actions must add value to the process.

In all negotiations we will look for win-win outcomes so that everyone is motivated to improve and participate. We look for long-term relationships and building mutual trust.

We will actively talk to selected competitors and customers and suppliers about best practice and benchmark ourselves against them. The best idea is often the one that improves on someone else's work.

We acknowledge that when partnering really works then:

- The overall costs can be reduced by 10% per year
- Delivery times can be reduced from months to weeks or even days
- Quality improves and is more consistent
- Stockholding can be reduced to a few days rather than a few weeks

…. and all businesses in the supply chain can make more profit because the money is not being wasted.

Exhibit 2.11 Best Practice in Professional Service Businesses

Professional service businesses fall into two basic categories:

- Stodgy businesses where the director’s salary is typically £25,000 or less.
- Dynamic businesses where the director’s salary is over £100,000.

Dynamic businesses have the following trends:

- They are often doing the mundane professional services, like design or auditing but are doing it very well.
- Typically the senior people are working 50 to 60 hours per week.
- Often they only have one or two directors and the directors have complementary temperaments and skills.
  - For example, one will be good at marketing while the other will be good at operations or highly technical
- They have a high level of director: professional: designer ratio, often one to four to twenty or above.
- They are very dynamic about marketing themselves.
- Sometimes they modify their services, especially how they deliver them, in order to grasp market opportunities.
- They have a very high level of customer care and quality of service.
- The leader has a high energy level and normally has the vision of where they want to get to and a plan of how they are going to get there.
  - This does not mean they do all the marketing but they coach the staff to do it.
- There is normally a high level of ICT and computerisation.
- The level of empowerment of staff both in responsibilities and authority is high.
- There is a very high level of repeat business and recommendations, normally coming from the high level of customer care.
- Staff who do not conform in quality, quantity, values and attitude do not stay.
  - Normally the staff are very happy.
- Often the business has only been founded / re-founded within the last ten years.

Businesses need flexible guidelines as inflexible rules just stifle innovation, empowerment and growth. Only your principles should be inflexible

Exhibit 2.12 Best Practice in Manufacturing Businesses

A survey was carried out a few years ago of machine tool manufacturers and an analysis made of top performers versus poor performers. Top performers had:

- Narrow range of products.
- 50% fewer parts, ie faster, simpler and cheaper to manufacture.
- Fewer workers looking after quality control.
- Fewer defects and less waste.
- Spent less on new product development.
- Spent more on continuous, incremental product development.
- Included customers and suppliers in product development process.
- Fewer customers and suppliers.
- Fewer managers, shorter lines of communications and higher proportion of skilled workers.
- Spent six times more per employee on education and training.
- Higher labour productivity and utilisation.
- Lower capital equipment productivity but used to get the most out of them rather then replacing them.
- Emphasis on service and continuous improvement.
- Products designed to give 100% quality, every time.

Customer Orientated Companies

The level of customer service in a small business is almost totally dependent on the attitudes and the values of the owner / manager and this determines whether (or not) the staff are happy and empowered or a little bit miserable and only working for the money.

Are you a customer-orientated business or are your processes, systems and attitudes orientated inwards towards the business? A lot of small businesses are still not customer-orientated and do things to suit themselves and not to suit the customer. Over the past five years, there have been major changes in the attitude of the customers towards businesses that are not customer-orientated and customers have moved their allegiance to other businesses. (See Chapter 11 Customer Service, for more details).

An overview of customer service and its effects on the business is given in Chart 4 / Exhibit 11.1 Customer Service in Small Businesses. Where is your business on this chart?

If you are not customer-orientated, you should be. This means that the leadership style and values, management and staff attitudes, the processes, systems and procedures all need to be reviewed and modified. This is a major strategic decision both to recognise whether or not you are a customer-orientated business and to take the appropriate steps to make sure that you are.

Marketing

Marketing is a philosophical way of running a business. It is not just about selling or advertising. It is about aligning the whole business so that customers want to buy from you and you become the obvious choice.

An overview of marketing in small businesses is given in Chart 5 / Exhibit 12.1. Businesses will often fall into one of the three categories.

The bottom level is where the attitude is ‘we just sell, what is marketing?’. These types of business tend to have fairly rigid organisations or closed management. They have confused values and they consider selling is all about price. It is also common for it to be difficult to actually buy off this type of business. For example, go round the delicatessen counters of the various supermarkets. The Tesco system makes it very easy to buy - in some of the other supermarkets it is actually difficult to buy.

The next level up is where the business has got its marketing systems in place and they have acknowledged that marketing and selling are different. The process has become more rigorous and starts to involve the whole business. These businesses normally do quite well, as long as their customer service also fits the image.

The third level, customer orientation, is when the entire business is orientated towards the customer. Typical comments from the staff include ‘the customers keep on coming back’ and ‘new customers just ring us up’. All businesses should become customer-orientated business if they are going to survive in the future.

68% of customers who change suppliers give perceived indifference as the main reason. This compares to 10% for price and only 9% for quality

Demonstrate competence or assert benefits

The attitude which you adopt for promoting your products fall into two distinct sectors:

- Demonstrate competence to your customers and build up trust in the brand. The message is ‘This is what we have done for other people, we are competent to do the same for you' eg case studies and articles.
- Assert the benefits of using your products and services over the competition. Most advertising is assertive.

Which attitude you adopt normally depends on the owner manager’s temperament but it should depend on what the customers will react best to. A lot of brochures are far too assertive for their targeted customer base.

50% of sales calls should be about developing relationships, not direct selling

Hunters and Farmers

Leaders, and the businesses that they own and manage, can sometimes be categorised as having either a hunter or a farmer attitude.

- **Hunter** type of businesses are focused on the next sale, not on developing or investing in long-term relationships. They are target driven businesses and individuals either succeed by meeting their targets or they are out. Planning consists of deciding where the next sale can be made, quickly. The expansion strategy is the same service or product into new markets.

- **Farmers** are a type of business who are focused on the service that they bring to the market and build their success by investing heavily in the chosen area. They succeed through focus and a concentrated effort in a few selected areas. The hallmarks are collaboration and team work and success of the organisation, not of individuals. They are in it for the long-term and make long-term relationships with customers. The growth strategy is new services into a slowly expanding customer base.

Management practices between Farmers and Hunters are conflicting and hence the business often has to choose between one or the other. But in some businesses, it can exist side by side with careful management. For example equipment sales are often done on a hunter basis, while the maintenance, parts and servicing is a farmer activity.

Improving Performance by 2%

This section contains a model for improving performance which is often used by accountants and consultants with small businesses, see Exhibit 2.13.

The present situation is given in the left hand columns of numbers and shows a profit of £17,200. If all the figures are improved by 2% then the profit increases to £42,743. While most small businesses can fairly easily improve their material and labour efficiency costs by 2%, take care with increasing the price as even 2% might make you uncompetitive and actually reduce sales, rather than improving them.

The real way to improve profitability includes the following:

- Have a well reasoned business plan and continually review it.
- Be realistic about the timescales and when events will happen.
- Define your key performance indicators, measure them and make sure that the relevant managers and supervisors know about them.
- Know your customers and speak to them about their requirements.
- Know your suppliers and continually aim to improve their performance and costs.
- Understand the bank managers’ requirements and keep them informed.
- Produce high quality products and services first time so that you do not lose money putting them right.
- Take advice from external and internal sources.
- Look at the strategic picture and do not get involved in too much detail.

All small businesses should continually look at all of their costs, including overheads and finance costs and aim to continually improve them. Profit is often the last 5% left after all the costs and it can easily become a loss.

Exhibit 2.13 Improving Performance by 2%

	Present situation			2% better performance		Comments
Average unit price	£5.00			£5.10		
Number of units sold	150,000			153,000		
Total sales	**£750,000**	**100.0%**		**£780,300**	**100.0%**	
Material costs	£232,500	31.0%		£237,055	30.4%	
Direct labour costs	£202,500	27.0%		£206,467	26.5%	
Transport and distribution	£22,500	3.0%		£22,941	2.9%	
Total direct costs	**£457,500**	**61.0%**		**£466,463**	**59.8%**	
Gross profit	**£292,500**	**39.0%**		**£313,837**	**40.2%**	
Directors costs	£65,000			£65,000		Not changed!
Administration costs	£54,000			£52,920		
Factory costs	£32,000			£31,360		
Sales costs	£56,300			£55,174		
Other overheads	£34,000			£33,320		
Finance costs	£34,000			£33,320		
Total overheads	**£275,300**	**36.7%**		**£271,094**	**34.7%**	
Net profit	**£17,200**	**2.3%**		**£42,743**	**5.5%**	**£25,543**

Management and Financial Accounting

Typically, small businesses fall into one of the three categories given in Chart 6 / Exhibit 17.1, Management and Financial Accounting for Small Businesses. Small businesses can vary between:

- Having financial information that is nine months out of date or older and, in reality, having little financial control or information, except the overdraft level.

and

- Knowing exactly what their financial situation is and taking decisions based on current information.

You should carry out an overall review of the accounting and the management information function of the business in order to enable the business to improve profits by managing the finances and information correctly. Decisions should be taken on current information, not just instincts.

6 RISK ASSESSMENT

So far we have mainly looked at the positive strategic aspects of the business, at this stage you should think of the negative side and what could go wrong. The purpose of the risk assessment is to identify the significant risks to the business and to reduce them by forethought and planning.

For example the business in Exhibit 2.2 has significantly reduced most of their risks (and cash requirements) by being a virtual business, while still making the same profit and a significantly increased return on capital employed.

Consider the risk assessment given in Exhibit 2.14. How risky is your business model and could the risks be significantly reduced by a change of attitude? You do not have to be high risk to have high returns, but a lot of small businesses appear to be betting the whole business and the personal assets of the owner / manager on events that only have a 70% chance of succeeding, eg finding the right number of high performing staff who will work for average wages.

Ignore Strategy

Some owner / managers 'adopt' an ignore strategy which can be a major risk to that part of the business or even the whole business. The ignore strategy is when the owner manager 'decides' to ignore, for example:

- A major threat to the business, eg competitors using the internet to take a lot of your sales and undercutting you. This could be threatening the core of your business and if you just ignore it, it will not go away and you could lose the business. You need a strategic plan to solve the problem and reduce the risk.
- A market sector or a product range that you have just lost interest in. If you ignore it, starve it of resources, including investment, management time, your attention and interest and sales time, then it will not perform. It can often become a self fulfilling prophecy, eg 'Oh, that section has no future', it will not have if you do not support it. Again you need a definite strategy, otherwise something of significant value could quickly become worthless as customers drift away. The strategy could be to sell it or to milk it for cash as you run it down.

7 BUSINESS MODEL

At this stage you should review Exhibit 2.15 25 Key Issues to being a successful small business. Most highly successful businesses score at least 70% in this questionnaire. Then you should define your overall objectives and your strategy as well as your business model in 5 pages or less including:

- What type of business you are and what type of business you want to be
- The product and services, now and in the future
- The customers, their needs and how they buy
- Main competition, their strengths / weaknesses, and what you can copy and do better
- The key success factors and how you measure up
- How you are going to produce and deliver your products and services
- Customer service levels
- Staff policies
- Significant risks
- Cost model
- Cash requirements

Exhibit 2.14 RISK ASSESSMENT

Risk Assessment for a refrigeration equipment sales and service business who wants to expand from £800,000 turnover to £3 million in 3 years from one depot.

Areas or Process	**Hazard or Risk**	**Effect or Potential Outcome**	**Action to reduce the risks**	**Costs and Implications of the Actions**
Owner / manager Senior managers	Serious illness putting them out of action	Could lose key customers Staff moral and efficiency Could lose the business	Key person insurance Interim manager agencies Make the plans	Under £1,000 pa
Management Team	Recruiting the wrong people and then not performing Leader not empowering them so they leave.	Reduced growth and major costs	Take advice	Over £10,000 if we get it wrong
Finance / bank	Bank pulls the overdraft if we default	Serious and business threatening	Spread the risks Longer term loans Monitor cashflow	
Financial. Need working capital of £400,000 and capital expenditure of £600,000	Raising the money Interest rates Personal guarantees	Reduced growth and major expenditure on interest rates	Split property out of limited company.	
Sales Commercial risk	Not meeting sales Competitor activity Lose a major customer	Could be serious Underlying reasons?	No more than 30% of turnover with one customer	
Quality and Customer Service	Reduced quality and inferior customer service	Lose customers	Customer service policy and plan	
Systems and processes	Not coping with the volume System crash	Loss of control		

Exhibit 2.15 25 Key Issues to being a successful small business with between 10 and 30 staff

A successful small business can be defined as growth of at least 20% per year, profits after drawings of at least £100,000 and a happy satisfied owner manager(s). The key issues are arranged in Business Excellence Model Enablers order.

No	Key Issues for a Successful Business	Low High	Actions / Comments
1.1	Strong values and leadership. Passionate about the business	0 1 2 3 4 5 6 7 8 9 10	
1.2	Vision, defined objectives and strategy and a written business plan	0 1 2 3 4 5 6 7 8 9 10	
1.3	Business is balanced and in harmony with its products, customers, staff and processes	0 1 2 3 4 5 6 7 8 9 10	
1.4	At least 5 days training per year for the leaders	0 1 2 3 4 5 6 7 8 9 10	
2.1	Focused products and services meeting defined customer needs	0 1 2 3 4 5 6 7 8 9 10	
2.2	Long standing core customers and lots of repeat business	0 1 2 3 4 5 6 7 8 9 10	
2.3	Expansion by existing products to new markets and new products to existing markets	0 1 2 3 4 5 6 7 8 9 10	
2.4	Identified the key customer needs and the competition and taken steps to be the best	0 1 2 3 4 5 6 7 8 9 10	
3.1	Management team in place, working together and being highly productive	0 1 2 3 4 5 6 7 8 9 10	
3.2	Empowered staff, full delegation and continual improvement	0 1 2 3 4 5 6 7 8 9 10	
3.3	Leaders work smartly in under 50 hours per week and have delegated low output activities	0 1 2 3 4 5 6 7 8 9 10	
3.4	Leaders spend at least 50% of their time coaching and motivating staff	0 1 2 3 4 5 6 7 8 9 10	
3.5	Well trained staff, competency based job descriptions and simple staff appraisals	0 1 2 3 4 5 6 7 8 9 10	
4.1	Product development is incremental, lead by customer needs and is well planned	0 1 2 3 4 5 6 7 8 9 10	
4.2	Suppliers are regarded as partners and chosen on performance, quality and then price	0 1 2 3 4 5 6 7 8 9 10	
4.3	Good two way relationship with the bank and getting the best deals from the bank	0 1 2 3 4 5 6 7 8 9 10	
4.4	Financial plan. Secure finances, flexible loans rather than overdrafts, known factoring costs and gearing ratio under 1	0 1 2 3 4 5 6 7 8 9 10	
4.5	Working capital known and under control including debtors, creditors, stock and WIP	0 1 2 3 4 5 6 7 8 9 10	
5.1	Defined written or charted processes which are regularly reviewed and optimised	0 1 2 3 4 5 6 7 8 9 10	
5.2	Investment in ICT and other systems to maximise productivity and customer service	0 1 2 3 4 5 6 7 8 9 10	
5.3	Full use of website, email, internet, telephones and modern computer systems	0 1 2 3 4 5 6 7 8 9 10	
5.4	Continual process for removing waste from the operations and improving productivity	0 1 2 3 4 5 6 7 8 9 10	
5.4	Marketing processes defined in writing, measured and optimised	0 1 2 3 4 5 6 7 8 9 10	
5.5	Customer service defined and measured and scoring at least 90%. Staff fully involved	0 1 2 3 4 5 6 7 8 9 10	
5.6	Accounts up to date, key financial information and performance indicators identified and available to managers	0 1 2 3 4 5 6 7 8 9 10	
	Total and % score	**/250 = %**	Success is a score over 70%

Chart 1 / Exhibit 5.1 **INTERNAL STRUCTURES DURING THE DEVELOPMENT OF SMALL BUSINESSES**

T/o up to £200,000 / 5 staff	**T/o up to £600,000 / 10 staff**	**T/o up to £1,500,000 / 25 staff**	**T/o £5,000,000 plus / 60 staff**
Owner / worker Some assistants	Owner / manager Delegation of tasks Supervisors and staff Informal systems ICT and written records	Owner/ Director Managers / departments Delegation of responsibility Formal written systems Management Team Organisation charts Dependence on ICT systems ISO 9001 & procedures Costing systems / MIS Shared Information	Split of ownership and management Directors / unit managers Delegation of authority Management by budgets Fully computerised Limited company Office manuals
Growth Hard work and creativity	**Growth** Leadership and direction	**Growth** Delegation	**Growth** Co-ordination Energy & vision of directors
Problems Overworked Doing everything	**Problems** Leadership and delegation	**Problems** Management team Autonomy and letting go Control	**Problems** Bureaucracy / red tape Stifling innovation Losing the founder

Turnover £

Time

Chart 2 / Exhibit 12.6 THE CULTURE OF INDUSTRIAL AND RETAIL BUSINESSES

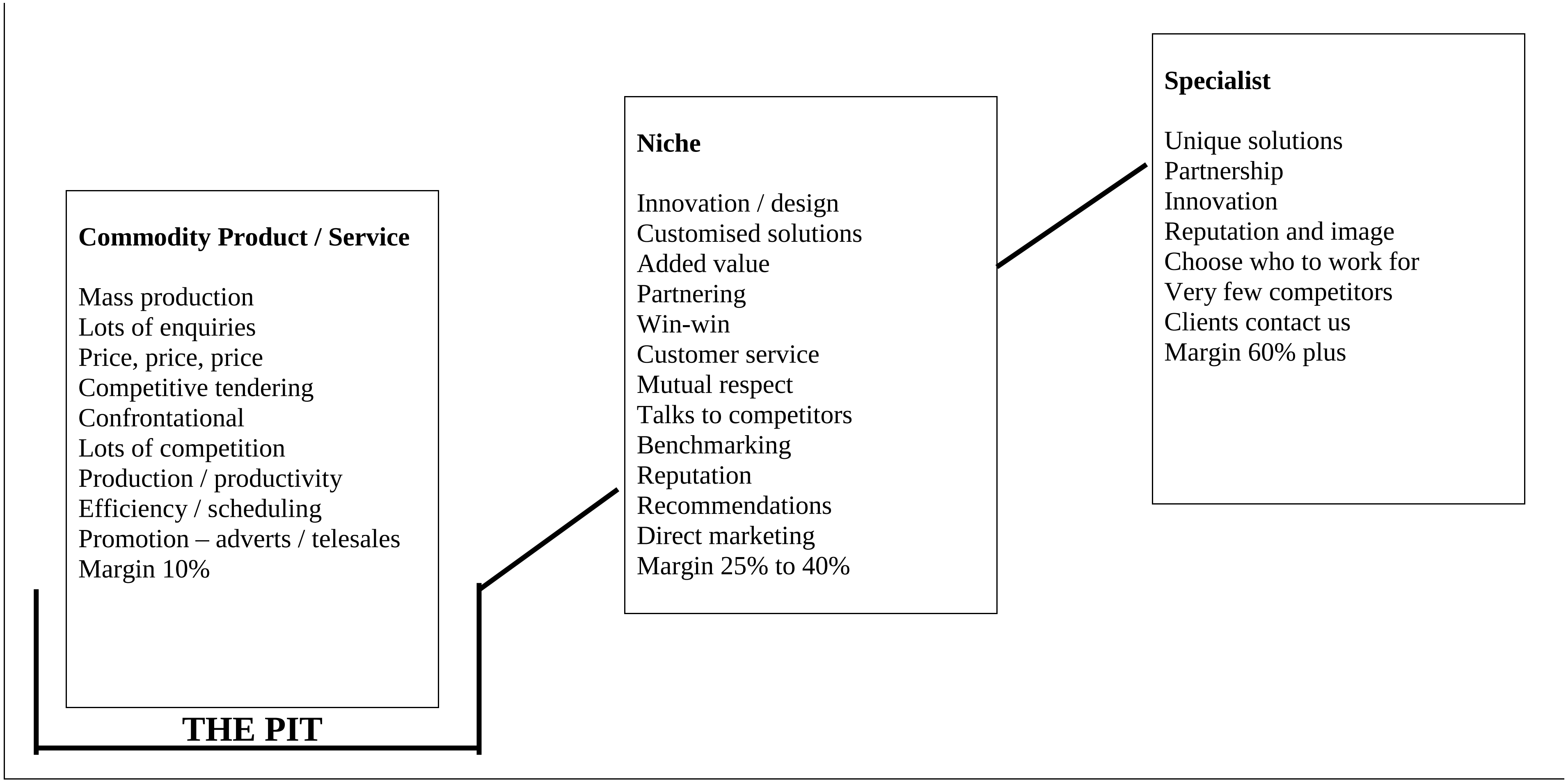


Chart 3 / Exhibit 3.3 DEVELOPMENT OF LEADERSHIP AND MANAGEMENT CULTURE

Command and control culture

Focus on the needs of the leaders / owners
Management by fear
Threats, control and imposed decisions
Delegating responsibility to managers
Policing, rewards and threats
Rigid systems
Inefficiency
High stress levels
Inspections / QA/QC department
Shame and blame culture
Talking at the workforce

You do things my way!!

Management team culture

Focus on the needs of the managers
Management by requirements / objectives
Management team meetings
Delegation of some authority to managers
Softer system of rewards and threats
Some shared information
Flexible and semi-rigid systems
Activity based procedures
ISO 9001/inspections/QA/QC department
Fixing mistakes culture
Some customer focus
Talking to the workforce
Appraisal and training schemes
Motivation by rewards

You do things by the book in order to achieve our objectives

Cooperative and teamwork culture

Focus on the needs of the managers, supervisors and workforce
Management by teamwork / team meetings
Department team meetings
Shared financial & production figures
Targets and objectives
Delegation of real authority to managers
Culture of continual improvement
System /process based procedures
ISO 9001/inspections/QA/QC on the line
Communication & open management
Priority on customer focus
Empowered staff and teamwork
Defined process for problem resolution
Flexible labour relations / Talk to staff
Occupational health & safety concerns
Environmental & resource usage concerns

The purpose of the process is to help us achieve our objectives

Chart 4 / Exhibit 11.1 CUSTOMER SERVICE IN SMALL BUSINESSES

Internal Orientation

Rigid organisations / closed management
Confused values
Arrogance / afraid
Little customer or supplier loyalty
Its all about price
Perceived as the reluctant choice
High staff turnover
Low morale, miserable staff

Going bust with a lot of hassle

Getting there

100% product quality
Keeps promises
Flexibility
Access to information
Competitor analysis
Customer loyalty
Added value
Talks to customers
Low staff turnover / happy staff
Talks to staff

Customer orientation

Customer needs and expectations
Customer service policy
Enhanced added value to customer
Reacts to customer requirements
Customer service surveys
Communicating to customers
Perceived as the obvious choice
Lots of repeat business / recommendations
Customer service standards and objectives
Image management
Empowered staff
Low staff turnover / happy staff
Training and appraisals
Staff fully involved

Success and an easy life

Chart 5 / Exhibit 12.1 MARKETING IN SMALL BUSINESSES

Marketing? - We just sell!

Selling by MD or sales force
Rigid organisations / closed management
Confused values
Little customer or supplier loyalty
It's all about price
Buying off you is difficult
High staff turnover
Low morale, miserable staff

Anyone can sell
Selling is difficult

Marketing systems

Marketing plans
Customer and product sectors
Product life cycle
Key success factors / unique selling points
Marketing and sales training
Database
Brochures, website, advertising
Mailshots, telesales, etc
e-commerce
Networking
Competitor analysis / strategy
Sales computer systems
Talk to customers
Low staff turnover / happy staff
Managers talk to staff

Selling is a skill

Customer orientation

Vision, mission and values
Organised by customer and products sectors
Integration of the whole company
Customer needs, wants and behaviours
Customer service
Neutral terms, conditions and warranties
PR and articles in press, win awards
Enhanced added value to customer
React to customer requirements
Communicating with customers
Lots of repeat business / recommendations
Brand and image management
Empowered staff
Low staff turnover / happy staff
Training and appraisals
Staff fully involved

Customers just keep coming back

Chart 6 / Exhibit 17.1 **MANAGEMENT AND FINANCIAL ACCOUNTING FOR SMALL BUSINESSES**

9 month old information

Manual cash book accounts
Shoe box accounting
Accounts once a year, six months late
Instinctive decisions and costings
Panic over VAT and overdraft
No financial information
Bank as reluctant supplier

The overdraft is just getting bigger

Information

Computerised accounts
Financial information for the MD
Book-keeper
Budgets and forecasts
Overhead based costings
Costs known every three months
VAT budgeted for
Cashflow
Understanding working capital

Decisions based on instincts

Decisions based on current information

Computerised accounts
Monthly accounts and analysis
Financial information for all
Accountant / financial controller
Budgets and forecasts, cashflows
Variance analysis
Full costs known weekly
Prices and decisions based on cost info.
Activity based costings
Ratio and comparative analysis
Key performance indicators
Investment appraisal
Bank and audit accountant as partners

No surprises

Chapter 3 LEADERSHIP

Leadership, or lack of it, is normally the main reason why a small business succeeds or fails. This chapter looks specifically at leadership from the owner / manager's perspective. Often owner / managers have not been formally trained in large businesses in leadership, and hence they have developed their own styles and methods and learnt by instinct, rather than by training and development.

Owner / managers are leaders, by definition, because they have already established their business to a greater or lesser extent. Some owner / managers can delegate and hence their businesses will grow, some owner / managers cannot delegate and hence their businesses will remain quite small. Either case does not necessarily affect the profitability of the business.

This chapter is split into the following sections:

1 Going independent
2 Characteristics of an owner / manager and a leader
3 Partners and family
4 Vision, values, ethics and trust
5 Empowerment and delegation
6 Owner / manager and leader involvement
7 Business start ups
8 Business close downs and failures

Specific Questions

The specific questions for the business review are given below. The purpose of these questions is to determine whether the personal values and temperament of the leader are in tune with the business environment, the customers, the staff and the business.

Why was the business founded? Why are you in business for yourself and why did you go independent? See Exhibit 3.1.

What are the leaders' personal aspirations and goals, their vision for the business and for themselves?

Characteristics

What are the characteristics of an owner / manager and a leader? See Section 2. How do you rate yourself?

What are your personal strengths and weaknesses? How have you covered your weaknesses? Are you using your strengths to their fullest extent?

What is your temperament, eg internal or external? What is your level of delegation and is it suitable for the business model?

Are you passionate about your business? Is the leader going through a personal crisis and if so how is this affecting the business? Are there signs of burnout, lack of vision, being fed up / had enough / wanting to do something else?

Are you a hunter or a farmer business? Do you demonstrate your competence or assert it?

Are there key issues like:

- Management succession / Retirement / Transfer of ownership
- Competition and changing business environment
- Sons and daughters

What is your leadership and management style? See Exhibit 3.3.

When exercising power, do you take the decision or set the environment for the managers and staff to take the decisions themselves?

How do you set the environment for innovation? How important is innovation to you and to the business?

What is the level of empowerment and delegation? See Exhibit 3.6.

Do you benchmark your business against other businesses? Who is your mentor?

Partners and Family

What is the role of the spouse / partner / family / children in the business?

Is nepotism causing an issue within the business or with your key staff?

Do the family objectives conflict with the business objectives?

How do you develop the ‘children’?

How do you manage change in the business?

What succession policy is in place and have you planned the transfer of ownership?

Vision and Values

What is the vision or the mission of the business?

Do your staff know about the vision or the purpose of the business? Does it excite them?

What are the values of the business?

- Quality / Customer care
- Suppliers
- Empowerment / Staff
- Innovation
- Timeliness and tidiness
- Cost control

Are there conflicts between the owners of the business and the leaders / managers? Are the visions and values the same?

Are the values in writing and are they discussed with the staff? Does the owner manager follow these values? Does the owner manager coach the staff in these values?

What is the morale of the staff and do you have high staff turnover?

What are the ethics of the business?

What is the level of trust and loyalty in the business?

Are you a lucky business?

An entrepreneur is someone who makes it happen

1 GOING INDEPENDENT

Motivation / Drivers

What motivates or drives somebody to go independent? If you ask an owner / manager, often they will say it was just the obvious thing to do and the opportunity arose. Often they have already developed natural leadership attributes and characteristics and these were being suppressed in their previous employment. Hence they had no option if they were going to fulfil their life's work, except to go independent.

Why do people go independent? Why do they give up a job and take the significant risks of going out on their own? Exhibit 3.1 Going Independent, categorises various businesses / individuals who have gone independent and gives examples, characteristics, methods and the risks involved with each.

Normal for the Industry

There are numerous industries especially the trades, eg plumbers and electricians, where a significant number of people in that industry are self employed and are starting small businesses. A plumber would typically go independent around the age of 28, and 20 years later will still be either working on their own or have about 20 plumbers working for them. The risks are low and significant capital is normally not required as these businesses tend to be providing a COD service.

Partnerships and Professions

Businesses like solicitors, accountants and architects are normally partnerships and suitable professionals within these firms often make partner by the age of 30. The methods of progression are well laid down and it is relatively easy to progress. However, there can be significant risks, especially if you have to buy the partnership. A lot of professional businesses, especially the smaller ones, face major competitive pressures and they do not necessarily make a profit. In some solicitors and accountancy firms, the average salary of the partners is now below £25,000 a year.

It is relatively simple for a partner, or a senior manager who is not going to be made a partner, to break away, take their own clients with them and set up on their own.

Take Over the Family Business

Taking over the family business is normal with small businesses, see Section 3. Typically these businesses tend to be better established, although there is a high failure rate within a few years of the 'children' taking over if they do not have the same characteristics and values as their parents.

If your parents are self employed or run their own business, there is a strong probability that you will also have become self employed or an owner / manager.

Entrepreneurs need luck, intelligence, perseverance and patients to succeed

Exhibit 3.1 GOING INDEPENDENT

Category	Examples	Characteristics	Methods	Risks	Comments
Normal for the industry	Plumbers ICT Consultants	Low capital requirements	Start as an associate Then jobs in own right	Low	Gets you off the payroll
Partnerships and professions	Accountants Solicitors Doctors	Business as normal Younger partners can split out on their own	Make partner by 30	Low / medium if purchasing partnership Joint liability	
Took over family business	Shops Contractors Manufacturing	More established Non working shareholders	Gradual transition	Conflicts with parents Taking over too late	Care with ‘other children’ not in the business
Unit manager breakaway / closure	Stockist Service engineers Installers	Takes customers Breeds competitors	Set up with your existing staff and take customers	Short of capital It happens quickly	If parent business closes, move quickly to ‘buy’ section
Management buyout	Service departments Support departments	Big business arrogance and poor customer service	Helped by parent company	Medium to big if only one customer	Got a lot of learning to do quickly
Redundancy and early retirement	Consultants Training businesses Garden centres	Lots of knowledge Low in energy Overspending	Uses redundancy money	Low but care with depression and transition from being employed	Must make a profit from year 1
Identified niche market	Manufacturing Importers Sales agencies	Often from larger companies and sales orientated	Identify opportunity when employed then make the break	Medium to high Needs planning	
Entrepreneur / inventor	Products, eg Dysons	Capital required? Investors Commercial partner	Hard work and determination	Very high	Rare

Unit Manager Breakaway / Closure

A lot of small business are formed by people who become the unit manager, typically around the age of 28 or so and run the unit for a few years as an independent operation, on behalf of a larger business. They then realise they could either do it for themselves, break away and set up a competitive unit; or the business is closed, or the group goes under, in which case they just continue on as they are or buy the business from the receiver.

These businesses tend to become relatively large quickly, ie they achieve a turnover of over £500,000 a year within the first three years. Often they have to become this large quickly because the owner / managers are used to managing a business of that size and are used to delegating, and hence take on large overheads.

Depending on the characteristics of the leader, this type of business either grows to the size or slightly larger than it was before under the previous ownership and then stays at that level; or it can grow significantly and become multi units.

The risks are relatively low because the owner / manager knows what they are doing, they have done it before and they have succeeded. The biggest risks are that the owner / manager will spend too much money because they are used to having staff and will not become mean and tight quickly enough.

Management Buyout

Small management buyouts of a department / section with a turnover of around £500,000 are risky. They are normally relatively easy to set up as the business which is doing the selling, wants to offload that section and will help the buyers / managers through the process.

However, the owner / manager can suddenly becomes independent, with a business turning over £500,000 and with only one customer! They and the management team suddenly have to discover how to sell, give excellent customer service, how to balance the books and how not to spend money rapidly before they upset their one customer, or run out of money.

The change of attitude, establishing your own values, and often the arrogance that has been associated with being the manager in a large business, all have to be addressed very rapidly in a management buy out. Often there are also two or three managers (all aged over 40) involved who have to learn to work together as partners!

Redundancy and Early Retirement

Executives and middle managers often take redundancy or early retirement and then, because they cannot find a job, have no option except to start up a business or go independent. Some of these businesses do spectacularly well, eg McDonald’s was founded by a 56-year-old ex salesman, whilst some do not. The characteristics of this type of business can be that it is set up in desperation because the person needs the income, rather than because they have a true vision and motivation. See Section 7 for more details.

Some executives make their hobbies into a business and because of their drive, experience and motivation they can do very well.

Identified Niche Market

Businesses in identified niche markets are often founded by sales and marketing orientated people or the technical specialist who have identified a specific need when they are working for a larger business and have then decided to 'go it alone'. Often the parent business will not let them expand into this area.

Another traditional way to set up your own business and make your million is to identify a product that is produced abroad, but not in the UK, and to sign yourself up as the sole UK, or European, import agency. Starting from a small base, you can then build up the business and, if need be, identify complementary products which you can also import.

The biggest risk is not understanding the UK certification problems, picking the wrong product or having problems with working capital. However, this is one of the lower risk options for setting up your own business, especially if you understand the market and the product or you are already selling into the same sectors with a large organisation and hence can take your contact list with you.

Often the manufacturing business abroad will help with working capital, eg consignment stock or long payment terms.

Entrepreneur and Inventor

The traditional entrepreneur and inventor is quite rare in the UK because, in the past, the financial institutions have not supported them. The inventor can vary between, say, the high level pharmacist working in a hospital who invents some new formulation, to the service engineer / technician who invents some form of instrumentation or measuring device.

The main problems of taking the invention through to a marketable product involve raising the required capital and minimising the risks that are involved to the entrepreneur's normally meagre capital and family house, plus the sheer hard work and determination that is required.

Other Talents / Dyslexia

A significant proportion of owner / managers (20% according to recent research) have dyslexia in one form or another and have difficulty writing say over 2 pages of text. They are often intelligent and have to set up their own business to achieve personal fulfilment. Typically they do not do well at school, leave early and learn a trade, eg precision engineering or work in a shop. They then set up their own business often before the age of 28 carrying out the same trade.

Society makes up rules for all of our behaviours. We call it civilisation. Entrepreneurs break these rules and hence sometimes have to ask for forgiveness

Name your business to describe what you do, not after you

2 CHARACTERISTICS OF AN OWNER / MANAGER AND A LEADER

A lot of research has been done on the key characteristics of a successful owner / manager. These include:

- **Clear compelling vision and a plan**. You need to be obsessively committed to the vision and the plan and direct energy and concentration on achieving the plan and hence the vision. You must not be diverted away from the plan but be open to changes to the plan if necessary.

- **Drive, perseverance and tenacity**. For example it can take 50 calls and 12 months to get the vital meeting which means that you get the funding or the main customer for your business to go ahead. A hard skin and a supportive spouse or partner is also a great help.

- **Action and results orientated.** The results are much more important than the process and you need to be prepared to breaks the rules. 'Rules are for the guidance of wise men and the obedience of fools'.

- **Obsessed with solving customer needs and problems.** Small businesses often start with one key customer with whom you learn your trade before expanding out to other customers and other services. You must also make it easy for customers to do business with you.

- **High self regard and self belief**. The main thing that stops people from achieving their full potential is a low self regard leading to low self belief. If your self regard is low, then you need to work on it. If it drops, then you need to bring in a mentor to help you bring it back up again.

- **Use your strengths and compensate for your weaknesses**. Use your strengths to the fullest extent. Analyse your weaknesses and recruit people (whether as partner, managers, mentors or suppliers) to compensate for them. Do not dwell too long on your weaknesses, just fix them.

- **Understand your temperament.** Whether it is sales (external) orientated or operations / technically (internal) orientated, you need a partner or a manager to balance the business and to enable it to grow.

- **Surround yourself with bright people with energy, vision, commitment, optimism, and a results orientation.** If you surround yourself with bureaucrats and people who are obsessed with following the processes and rules, or are pessimistic, they will sap your energies.

- **Seek forgiveness, not permission.** This includes forgiveness for breaking the rules as well as self forgiveness as realistic self forgiveness releases enormous positive energy. Instead of it being locked up tight, creative energy flows, grows and invigorates.

- **Learn from your mistakes and then move on.** Self-forgiveness and self-compassion are not soft options - indeed they require that you realistically appraise yourself, warts and all, accept what you are not good at, and forgive yourself for your mistakes. The result is that you rechannel your energy in many ways - from a weak to a strong method of self management. The negative self-talk that you beat yourself up with becomes positive, self-improvement messages, 'what did I learn from that'.

Owner / managers and leaders normally possess most of the above characteristics and when a business has problems, it is normally because one of these characteristics has been ignored.

Key Positions

The key position is the owner / manager or the boss. It is their vision and values and their organisational abilities to implement their vision and values that will determine the success or otherwise of the business. Some owner / managers have a strong vision about where they want to get to and can be enormously successful. However, some owner / managers have an organisational attitude or temperament, often without a vision about where they are trying to go, and hence this type of business becomes a lifestyle business.

The owner / manager sets the culture for the whole business, whether it is free market enterprise with high levels of innovation and growth or whether it is constrained with restrictions and hence low growth.

Reporting to the owner / manager are normally the department heads or managers. Again, these managers need to have a strong vision and values about where they want their specific departments to go. They also have to be passionate about what they are doing and determined to succeed.

Temperament of the owner manager

Leaders and owner / managers need an inner strength and a constant set of values that everyone knows and can rely on. The overall temperament of an owner / manager can be identified using the grid in Exhibit 3.2.

Owner / managers are either good delegators, in which case the business will grow, say to £1 million turnover plus fairly quickly, or they are low delegators, in which case the business will often top out at around £600,000 / 15 staff.

Exhibit 3.2 Temperament of an owner / manager

<table>
<tr><td rowspan="4">Internal, eg operations</td><td colspan="2">High delegation</td><td rowspan="4">External, eg sales</td></tr>
<tr><td>Needs to delegate sales
Must be in an operations orientated business environment
Can become a very big business</td><td>Can grow big quickly
Takes outside advice
Benchmarks with other businesses
Needs good operations manager</td></tr>
<tr><td>Small operational business
Can be highly skilled
Only survives if good</td><td>Are operations important?</td></tr>
<tr><td colspan="2">Low delegation</td></tr>
</table>

Some owner / managers have the characteristics and temperament for internal operations, ie they prefer working within the business, or producing the goods or delivering the service, whilst some prefer the external aspects, ie they look outside the business and they tend to be good at sales, dealing with customers, etc.

If the owner / manager is internally orientated they either have to delegate sales or else the business will remain quite small, or become highly skilled and specialist. Businesses that have high delegation and where the owner / manager is externally orientated, eg sales orientated, tend to grow quite large, quite quickly, but unless there is a good operations manager, then the customer service and quality can suffer badly.

One of the major reasons for business failures is that the business just gets too big for the characteristics and temperament of the owner / manager. For example if the business is over £1 million turnover / 20 staff and the owner / manager cannot delegate, then the business will often have serious problems.

If you are not passionate about the business, you will not succeed

Leadership and Management Style

The overview of leadership and management style in small businesses is given in Chart 3 / Exhibit 3.3. At the left-hand end there is the autocratic manager who tells everybody, with little delegation. These businesses normally do not expand very quickly.

Once the business grows above about £600,000 / 15 staff, then the owner / manager has to be a leader and normally needs to delegate to managers or departments. At the top end, empowered management, there is a general split of ownership whereby management and directors / unit managers are given real authority and responsibility.

Traditionally there are five main management styles or behaviours.

Autocratic Style - The autocratic leader is authoritarian and assumes the responsibilities for all of the operations. There is little communication or feedback and while this style is appropriate in certain circumstances, eg the Fire Service, it is not necessarily appropriate for small businesses.

The autocratic style creates a clear line of command and leads to quick decisions but it also creates frustration and resentment and lack of involvement from the staff. While the autocratic style was the old-fashioned model for leadership, it is still fairly common in small businesses, but it might not be suitable if the business wants to grow.

Benevolent Autocratic Style - The benevolent autocratic leader is probably the most common in small businesses. They listen to the staff and then make the decisions. Responsibility will be delegated to a selected few.

Bureaucratic Style - The bureaucratic leader manages by the rule book without exception. This type of leader tends to be inflexible and creates resentment in the staff and in a small business a bureaucratic leader does not normally last very long.

Democratic Style - The democratic and participative leader seeks opinions of the managers and staff and strives for mutual understanding. With the democratic style owner / manager, there is team work and a lot of communication with the staff, but the ultimate responsibility for the decision making still rests with the owner / manager.

Chart 3 / Exhibit 3.3 **DEVELOPMENT OF LEADERSHIP AND MANAGEMENT CULTURE**

Command and control culture

Focus on the needs of the leaders / owners
Management by fear
Threats, control and imposed decisions
Delegating responsibility to managers
Policing, rewards and threats
Rigid systems
Inefficiency
High stress levels
Inspections / QA/QC department
Shame and blame culture
Talking at the workforce

You do things my way!!

Management team culture

Focus on the needs of the managers
Management by requirements / objectives
Management team meetings
Delegation of some authority to managers
Softer system of rewards and threats
Some shared information
Flexible and semi-rigid systems
Activity based procedures
ISO 9001/inspections/QA/QC department
Fixing mistakes culture
Some customer focus
Talking to the workforce
Appraisal and training schemes
Motivation by rewards

You do things by the book in order to achieve our objectives

Cooperative and teamwork culture

Focus on the needs of the managers, supervisors and workforce
Management by teamwork / team meetings
Department team meetings
Shared financial & production figures
Targets and objectives
Delegation of real authority to managers
Culture of continual improvement
System /process based procedures
ISO 9001/inspections/QA/QC on the line
Communication & open management
Priority on customer focus
Empowered staff and teamwork
Defined process for problem resolution
Flexible labour relations / Talk to staff
Occupational health & safety concerns
Environmental & resource usage concerns

The purpose of the process is to help us achieve our objectives

The democratic style is suitable for professions and highly skilled workforces. While the consultation and the communication takes time, the staff morale is normally high and the staff have greater commitment.

Free Range Style - The free range style leader sets goals for the managers and staff and lays out clear guidelines to which they work. Once the objectives have been established, the subordinates are left to achieve them on their own. This style is quite rare in small businesses.

This style works very well when subordinates are willing and able to accept responsibility and it serves to motivate enthusiastic workers. However, its success depends on the competency and integrity of the staff.

Split of Ownership and Management

In small business there is not normally a split between ownership and management. The owner / manager is obviously in charge, and often does things in the business to suit themselves and their own personal and family circumstances. This is one of the main characteristics of the small family run business.

However, as the business turnover gets above £1 million / 30 staff, the owner has got to stop treating the business as their own and start managing it as a professional manager. They have to continue to set good examples.

An example of a bad practice for an owner / manager is for them to help themselves, legally, to money from the till or petty cash. This is quite normal in small businesses / shops / hotels but if the business is turning over £1 million, then this practice gives a very bad impression to the staff.

Leadership, Management, Bureaucracy and Politics

Over the past 30 years we have shed our bureaucratic practices and changed our values typically as shown in Exhibit 3.4.

- Where are you, as an owner / manager and as a business?
- Where are your customers and suppliers?

How many of your actions and systems are poor management or just done for bureaucratic or political reasons, which are often based on lack of self confidence? Are you a bureaucrat for whom following the defined processes, filling in the forms and getting lots of signatures is more important than achieving the results?

Innovation

The best qualification for innovation is a basic training in engineering

Small businesses will only survive by innovating and continually being better than the competition. Is the environment in your small business right for innovation? Innovation is not just developing new products, it is about continual improvement in your services, processes, attitudes and developing your business and your staff.

Exhibit 3.4 CHANGES IN VALUES OVER THE PAST 30 YEARS

Values based on 1980's Bureaucratic Principles	Values based on 2000's Business Excellence Principles
The process is more important than the results	The results are more important than the process
Hidden objectives and office politics	Working in partnership to achieve open and agreed mutual objectives
Win - Win means that we win twice	Win - Win means that both parties are happy, enthusiastic and motivated by the outcome
The Business Excellence Model and ISO 9001 are standards to be rigorously adhered to	The Business Excellence Model and ISO 9001 are guides and a set of principles to be used to help businesses
We look for whom to blame (not us) when things go wrong	We look to resolve the problem when things go wrong. We have a problem and conflict resolution process in place
Motivation is by fear of failure and threats	Motivation is by setting realistic goals and praise
A supplier is inherently not to be trusted and needs constant monitoring	A supplier is an integral part of the team and should be fully trusted and empowered to achieve the defined results
We will dictate any continual improvement and communications will be mainly out from us to the staff and the suppliers	Continual improvement is the responsibility of everyone and communications will be open and effective
Suppliers and staff need to be motivated by threats and pressure and need constant criticism to keep them in their place	Suppliers and staff are self motivated and need targets, goals and constant praise to ensure superior performance
Standards are based on hard measurables like layout and content and not on soft outcomes like client satisfaction	Standards are based on soft measurables like client satisfaction and did it achieve the expected outcome
Quality comes from rigorous inspection and feedback of deviations from the standards. Poor quality comes from not following the defined process	Quality comes from empowered, competent and well motivated people who share the same set of values. Poor quality comes from having a poor process
We measure our failures as we have to justify all expenditure	We measure our successes as these justify the overall expenditure

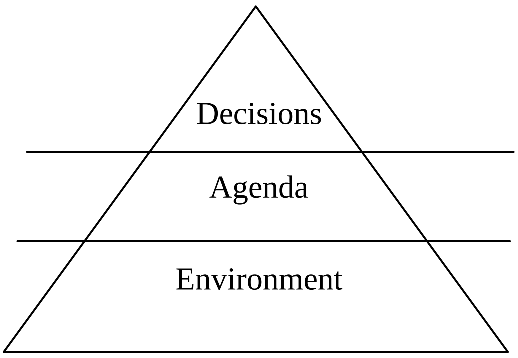
Consider the following:

Environmental factors which discourage innovation	Small business	Environmental factors which encourage innovation
Just a job to get money		Empowerment of staff. See Exhibit 3.6 Empowerment Checklist
Unhappy staff		Happy, content staff. See Exhibit 5.5 Maslow's Hierarchy of Needs
Secrecy		Defined missions Agreed positive values Open defined objectives
Closed attitudes Bureaucracy		Open communications Open attitudes Continual improvement
Negative and critical management style		Passion, energy and vision Opportunities Positive environment

Exercising Power

Owner / managers often have enormous power over the way the business will develop and their staff, way in excess of equivalent managers in large businesses. It is actually quite rare for their authority to be questioned or challenged by somebody who works for them as that person will then not last very long in the business.

Power typically comes from three levels as indicated below:



The power to make decisions is the smallest level of power, and should be delegated by the owner / managers.

The owner / manager should set the agenda but, to a much larger extent, they have the ultimate power because they set the overall environment for the business. The owner / manager can delegate both the agenda and to a greater extent most of the decisions, without risk to their power base.

3 PARTNERS AND FAMILY

The role of the spouse / partner, the family and children of the owner / manager in a small business is enormously important and is one of the main differences between small and large businesses. In large businesses nepotism is frowned upon and can be highly destructive, while in small businesses it is the normal way to operate.

Role of the Spouse

The spouse, whether husband, wife or partner, can either be very supportive to the owner / manager or can be a hindrance to the development of the business. The important aspect is to ensure that the spouse holds a position that is suitable for their capabilities and temperament and, while they will have undue authority because of their relationship, they must not be allowed to exercise undue power.

Owner / managers tend to live their business, and they have to ensure that if they are involving their spouse in the business, then they do not take all of the worries and stresses home and never have a home and family life.

Having a family member in the wrong position and exercising power and authority is one of the major causes of stresses in small businesses and is the major reason why staff leave, especially key supervisors.

Family Objectives and Communications

Family members within a small business have to communicate with each other on a business level rather than on a family level. This means that there needs to be open communication with a frank interchange of ideas and some agreement on common values and beliefs. However the organisational structure within the business might be significantly different than the structure within the family, leading to conflicts either in the business or in the family area. For example:

- A young qualified nephew might not be brave enough to tell you that you have a customer service problem or that your attitude to clients is no longer applicable to the marketplace.
- You may not want to tell your favourite aunt and major shareholder that she has not kept up-to-date and is no longer contributing to the business.

Different family members will want different things from the business which can often lead to major conflicts. For example:

- One family member might want (or think they need) a large income this year, and hence do not want to re-invest capital back into the business. They might also take significantly higher risks in order to achieve this high income.
- Another family member might be more prudent and want to leave the money within the business, rather than taking out high interest loans. They might also be risk averse.

You get major conflicts of interest when one senior family member wants a family member to be employed, often when they are unsuitable or just because they cannot find a job. They can become an additional salary when the business cannot necessarily afford it.

If these issues are not addressed they can lead to significant de-motivation and unhappiness amongst normally highly productive members of the family and staff.

Small businesses do not treat family and non-family staff equally and generally are not expected to. Sometimes family members are expected to work much harder than other staff and to stay behind to finish things off. Sometimes family members get away with an easy ride. For example, if you know your son is heading for a divorce, you are more likely to be lenient with him as his performance drops off, than you would with a non-family member of staff.

These issues need to be brought out into the open and addressed; otherwise there will be discontent within the business both amongst the family and amongst other members of staff which could result in staff leaving.

Consider having a formal communications meeting with family members on at least a quarterly basis in a business setting, ie not at home. During this meeting you need to develop an atmosphere of open discussion amongst family members and make sure that everybody understands that the business is a commercial venture to be run as a business, on business principles. If you want to include family objectives within the business plan, this is fine but make sure that they are agreed, documented and suitably costed.

The hidden objectives of the family members need to be brought out in the open so that they can be costed and included within the business plan; otherwise you will not all be pulling together to achieve the same objectives. If there is conflict and differing objectives, and they can not be resolved, then the foundations of the business are being threatened and you then need to decide whether or not in fact the business needs to be split into two.

One of the major differences between small and large businesses is that:

- Large businesses look at what markets are available and recruit managers with the right temperament for those markets.
- Small businesses look at the temperaments of the owner managers and the family members and look for markets which suit those temperaments.

Developing the Children

Bringing the children into the business and developing them so that they are capable of taking the business over, if need be, is one of the major challenges facing an owner / manager. Children often want to come into the business and see that as what they have always wanted to do because that is what they have been brought up with. However the owner / manager needs to lay out a formal plan to develop the leadership characteristics of their children.

Typically the ‘children’ can be placed in an equivalent business, either a competitor, customer or another business some distance away who carry out similar operations, so that they can develop their own styles, without the authority and power that can come from being the boss’ son or daughter.

Then when they are ready, they can be brought back into the business, given suitable responsibilities, delegated authority and power and set objectives which they have to achieve.

Normally the 'children' should be given a unit to run on their own which is physically separated from the main unit by a few miles, otherwise they might not develop into the leaders that they need to be in order to take over the business.

Owner / managers who founded their own business have normally come up the hard way and have taken the risks associated with it. Their children often have had a more pampered life and hence have not had the challenges or had to take the risks.

Jobs for the Family

Small businesses need to have the right staff at the right levels and all staff including the family members must make a full contribution in line with their salary and their position. Before joining the business family members should obtain work experience elsewhere. This would help them to:

- Mature
- Make a positive contribution to the business
- Bring a new perspective to the business
- Earn respect within the business

One of the major problems within a small business is when a family member is over-promoted beyond their capabilities. The effects of this is that you are likely to de-motivate the non-family staff and make it difficult to actually retain the high quality staff that you need. This is especially true of unit managers and supervisors. It is also likely to deprive the business of the people that it needs to stay competitive.

Furthermore take care not to discriminate against both family members and other staff on gender grounds; otherwise the business may miss out on potentially valuable resources. Consider finding a mentor for family members both outside and inside the business.

Management of Change

If it works, why change it? This is the way we have always done it.

In the modern business environment all small businesses have to continually look at what changes are required in order to remain competitive. Change can come about both from competitor activity, general changes in the marketplace and also changes in the needs and requirements of family members within the business. Furthermore when one of the owner / manager's children "takes over", they may want to manage the business quite differently to the way that their parent did. They will often be motivated differently.

The family values and culture are what give a small family business an edge over its competitors but you need to ensure that these values and culture are still relevant in the marketplace in which you are operating. If they are not, the family business will often go under, if it does not change.

The owner / manager and their children need to accept that change is inevitable and that at one stage they are going to have to change. However this type of change can affect people of different generations and within the business quite differently.

For example an older owner / manager who has spent 30 years building up the business doing it their way, might not actually want the business to be changed to reflect how their children want to do it, even if it is in the best interests of the business and necessary to grow or survive. This needs to be sensitively managed.

If there are any changes within a small business, you need to ensure that the family issues are separated from the business issues and dealt with separately. However when a son or a daughter takes over a business from their parents, they often want to make certain major changes quite quickly which they have thought about for a long time. These changes need to be done for business reasons, not emotional or power reasons.

Transfer of Ownership

When the owner / manager wants to retire and transfer the ownership of the business to their children, this is a period of high stress and trauma. It is also a very risky stage which many businesses do not survive; therefore it needs to be well-planned through, although the plans often change.

I could always stay on in purely an advisory capacity…..

The original owner manager should consider selling or giving the business to their sons or daughters rather than retaining a large percentage of the ownership and then meddling. Normally a clean break is required although the original owner / manager needs to be on hand, as a parent, to assist their sons and daughters as required but not to control them. Furthermore, try to avoid giving a large percentage of the business to an offspring who is not involved with the business as they might interfere in order to get different objectives out of the business, eg more money and income.

There is a significant risk when businesses are being run by 40 year-old sons and daughters and the ownership is still typically with their mother and/or their aunt as the original owner / managers have already died. Nothing stifles business growth or hurts prosperity more than having owners who have a different set of values and requirements from the business than the managers who are running it.

The first stage of the transfer of ownership of a business is for the owner / manager to decide that they are going to do it and that they are going to relinquish control. This is an emotional stage and often the owner / manager will change their mind a few times, leading to problems with the next generation. Sometimes the next generation gets fed up or does not like the deal and goes off and starts their own business, often in competition!

If the transfer of ownership is going to be orderly, then the owner / manager needs to identify a successor at an early stage and start to relinquish control. The successor needs to be trained and to gain the broad breadth of experience that they require in order to run the business. For example if your son is presently the Operations Manager running a section of the business, he might need training in sales and financial control rather than just operations.

This transfer of ownership process can take up to three years and needs to be planned. However sometimes the 'children' themselves are not the most suitable people to run the business and it is worth considering bringing in an outside general manager to run it. For example, the son or daughter might be excellent at product development, but cannot actually run the business on a day to day basis.

In which case they could end up as the New Products Director, while the day-to-day operation of the business is then handed over to a General Manager. In this case you will need an independent director in order to stop the business spending too much on Product Development!

The other major aspect to look at with any transfer of business is how much money you are going to leave in the business and what are the tax implications. If the business is cash-rich, then this might be transferred to the retirement fund for the owner / manager and not necessarily handed over to the 'children'.

Try as far as you can to be independent of the business for post-retirement income as this should help you to give more impartial advice to your successor and to stop you being a drain on the business. More importantly once the decision has been made, go when you say you will.

The Service Business

A man set up a small business that provided a reasonably good livelihood and achieved a turnover of £150,000. His two sons joined him in the business, one of whom was a good operator, and the other of whom was good at selling. However, the father wanted to keep the business small but the salesman son had visions to grow the business, and did so, up to a turnover of £300,000, by developing his own section.

When the son was 28, he was frustrated by the father and his brother not wanting to invest in stock and equipment. At this stage the sensible option would be to split the business between the two sons and for the father to retire. However, the father insisted on everybody staying together, which caused bitter rows and arguments.

After three years the business suffered and the salesman son finally set up on his own. The original business folded a year later from lack of sales.

4 VISION, VALUES, ETHICS AND TRUST

Vision for the Owner / Manager - Mission for the Business

In small businesses, the vision for the owner / manager and the mission for the business are often the same. Owner / managers all have a vision, whether they recognise it as such or not, and they normally strive to make their business into something. How well the business succeeds depends on their leadership qualities and whether they can convert this vision into reality.

Sometimes the owner / manager and the business goes stale and drifts without a defined vision which can be dangerous for the business.

**Until you have defined your vision to your staff,
the steps along the way can be random**

Setting goals or objectives for a business without also having a mission, can often mean that the goals are set without passion and hence the enthusiasm and energy will not be put into achieving the goals. A lot of businesses lack a sense of mission, rather they have an unemotional purpose; they provide this service or they make this product.

Making lots of money for the owner / manager is not a mission. Within these businesses, the staff have a job and they go to work because they need the money. This means that so many people are discontented with their jobs and lead a split life. They divide their time between what they have to do to earn a living and what they want to do to enjoy life.

If you can create a mission for a business and then communicate this mission to all of the managers and staff and ensure that they believe and are highly enthusiastic about this mission, then you will get a dynamic organisation as opposed to a stodgy one. When everybody believes the same mission or vision or dream, and they all strive together to achieve it, then you get enormous synergy and release of emotional energy amongst all of the staff.

How do you define a mission and communicate it to your staff? The leaders of the business should first define the mission and then ensure that they really believe it. If their personal mission is personal aggrandisement or personal ambition, it will not fit in with the business' mission; then you will get major conflicts and the staff will get demoralised.

Once the mission is defined and agreed, and it fits in with the values of the senior management, then everybody, by their enthusiasm, should communicate it to all of the staff. Make sure that all of the actions and decisions of the managers fit in with this mission and do not contradict it.

Often the written mission of the organisation is not believed by the managers and staff and decisions do not fit it, and hence it becomes irrelevant.

Values

The personal values of the owner / manager often become the values of the business. Values provide the basis for most of the decisions that are made in a business and should be openly discussed and agreed with the owner / manager, managers and all the staff.

Small businesses should define their values in writing and by example (see Exhibit 3.4).

Businesses succeed when they have a strong set of values which are fully implemented and agreed and shared with all of the staff, led by a leader with a strong vision.

The values should be reinforced by the owner and the managers continually coaching of all of the staff, the suppliers and the customers.

If the organisation takes apprentices or trainees on, you need to ensure that the right values are being instilled into them at a young age. This was the big advantage of the old apprenticeship scheme, and it meant that tradesmen and skilled people kept a high set of values all the way through their life.

If an organisation has low morale or is unhappy, or has high staff turnover or high absenteeism, it is often because the mission is not defined or not being followed, or the values of the staff are not in line with the values and actions of the senior managers and owner (and are often higher).

Exhibit 3.4 OUR COMPANY VALUES

We will operate an honest business based on trust, integrity and respect.

The customer comes first and we will carry out our activities to suit the customer rather than to suit ourselves.

We will always have a positive attitude in everything we do.

We will have very high personal quality standards and ensure that we always carry out all of our activities to these high quality standards. We will set an example for the rest of the staff to follow.

We will always follow all of the rules that we set our own staff.

The quality of service given by our staff to our customers depends on whether the staff are happy and content in the work place. We will take all appropriate steps to ensure that they are.

We will cultivate an attitude of excellence and high quality in all of our activities and services.

We will ensure that all of our staff are fully trained and competent to deliver this service by providing the necessary training.

We will encourage and support all of our staff to fully develop their capabilities.

We will ensure that the facilities, systems and equipment are suitable for the services that we offer and all comments and suggestions for improvement are acted upon.

We will ensure that our present personal standards for quality and customer care are above the standards of our competitors.

We will empower our staff and create an environment which encourages innovation, performance, improvement and feedback.

Hotels

Whenever I walk round a successful hotel with the owner / senior managers, they are continually tidying things up, picking up rubbish, talking to staff, guest etc. This shows that what they see is below their standards or values and they continually want to bring everything up to it. This setting of an example is a continual coaching for all of the staff and is normally one of the main reasons why the hotel is successful.

Trust

Trust is the key to business success as shown in Exhibit 3.5. Trust is an emotional two way interaction between people and when it is present the business can prosper. When the trust (and loyalty) has gone, the business or the staff often will soon follow.

Exhibit 3.5 Trust is Key to Business Success

Trust is a two way emotional interaction between people

Character	**Competence**	**Continual Development**
Shared common values Fairness, truth, honour Integrity Word is your bond	Experience Knowledge Ability Temperament	Time & effort to establish trust and to maintain it Time & effort to keep competences current

Communication	With trust comes easy effective communications
Management team	Performance and synergy
Staff	Trust is mutual. If you trust the staff then they will trust you. Then you start to get empowerment and real performance
Customer service and sales	Technical trust — To carry out the job competently Commercial trust — To give value for money Time trust — To do the job on time Service trust — To be nice people to deal with Then sales just roll in as you become the obvious choice
Financial	Suppliers — They give you credit and priority Bank manager — The overdraft extension is for the asking Customers — They pay the invoice on time

When the trust goes or is not present	
Communication	Is difficult, ineffective and stressful
Management team	Argue and do not pull together
Staff	Leave or become inefficient
Customer service and sales	Customers leave as they are no longer comfortable Administration and paperwork increase as everything has to be in writing
Financial	Suppliers ask for shorter payment terms The bank manager asks for the overdraft back Customers keep money back just in case….

The secret of growing a successful business is to have people whom you can trust implicitly

Ethics

The owner / manager sets the ethics for the business. While most small businesses inadvertently break the law, mainly because of the sheer amount of red tape that is around, small businesses who continually flout the law or whose ethics are questionable, normally fail. There are very few owner / managers who have the characteristics and temperament to carry out serious fraud; most have serious stress problems when they get involved in it.

Owner / managers should examine their ethics and behaviour and ensure that they can live with themselves and be at peace with their staff. Ethics include:

- Treatment of customers and suppliers
- Payment of bills
- Pollution, noise and environmental aspects
- Health and safety
- Discrimination
- Sexual harassment and general harassment / bullying

Loyalty

Do your staff enjoy working for you and do they display a high degree of loyalty, and visa versa? Loyalty within a small business is very important and again is an emotional two way interaction between people, very much linked to trust. Loyalty can take years to establish and can be lost in seconds, eg when a manager threatens to resign, the trust and loyalty is often lost.

Luck

All owner / managers need luck but most of them make their own luck or opportunities. If you know where you want to go, then when something pops up (eg an article in the paper or a phone call) you can grasp it and react quickly. We all filter out the thousands of events which are happening around us all the time and only notice those which are relevant to our way of thinking.

Lucky owner / managers normally have a clear vision and go out of their way to find opportunities which will help them fulfil their vision. This can be called luck or it can just be being in the right frame of mind.

Opportunities multiply as they are seized - Sun Tzu c.600 BC

5 EMPOWERMENT AND DELEGATION

Power in an organisation is dynamic, it moves and flows depending on the circumstances and the behaviour of the people at the top. Power and controls either accumulate upwards with the leaders or they diffuse downwards into the organisation. Modern small businesses work best when the power has diffused downwards (empowerment) as then people are motivated to be innovative, enthusiastic and full of energy. When power accumulates upwards, the people become demotivated and just work for the money.

Consider the Empowerment Checklist for Business Managers given in Exhibit 3.6. How does your business match up to this checklist?

Exhibit 3.6 Empowerment Checklist for Business Managers
How does your business match up to this checklist?

1. Do your staff understand your business and how it earns its money?
2. Do you actively and positively encourage staff to improve their competencies, skills and abilities? Do you know what competencies and skills your staff have? Do you make use of them?
3. Are your staff encouraged to come up with new ideas? Do you take any notice of them and are they allowed to try them out?
4. Do your staff see you as an ogre or a colleague? A help or a hindrance? Do they share your ambitions and enthusiasm for the business or are they bored?
5. Do your staff have control over the resources they need to do the job or must they constantly refer to you or their supervisors for instructions, even over trivial matters?
6. Can your staff negotiate with customers and deal with complaints, even if this apparently costs your business money?
7. Are your staff encouraged to experiment with new ways of doing things or are they just told to get on with their job?
8. Does your business hum with enthusiasm and innovation or are your staff watching the clock?
9. Do you recognise individual achievements and make others aware of them or do you only get involved when something goes wrong?
10. Can your staff develop their own job and responsibilities or are they trapped in a rigid job description?
11. Does everyone work happily together or do you suffer from malicious gossip, office politics and bullying ?

One of the hardest things for an owner / manager to do, is to start to delegate real authority and responsibility to their staff, supervisors and managers and to really empower them. Often an owner / manager will start to do this and then discover that the staff / managers do not do things as they want them done or they would do them so they then retract the authority and responsibility. Numerous businesses have expanded and then contracted in this manner.

However, if the owner / manager can get over this hurdle, fully empower their staff with authority and responsibility and fully develop the staff to the best of their capabilities, then the business will normally hum with enthusiasm and be much more prosperous.

6 OWNER / MANAGER AND LEADER INVOLVEMENT

The leader of an owner managed business is the most important factor that will determine the success or otherwise of that business. They should set the vision, values and objectives of the business and then delegate to and coach the staff to ensure that the objectives are achieved. They set the management systems / processes and define which products, services and customers the business will be involved in. Consider the questionnaire given in Exhibit 2.15. How do you score and, if you disagree with some of the question / scoring methods, is this an indication of your leadership style?

7 BUSINESS START UPS

The majority of small and owner-managed businesses in the UK are 'me-too' type businesses, ie they carry out activities and sell products and services which are provided by lots of other competitors, and whereby the methods, processes, customers, products, etc. are already well defined. Small businesses do well by providing these products and services better than the competitors.

In reality there are very few entrepreneurial businesses in the UK whereby an owner / manager is doing an activity which is quite different to others, ie they have developed a new activity with new methods. When this happens, the individual leader can make a fortune or slide rapidly into obscurity. Often what happens is that the second business in makes the money, learning from the original business' mistakes.

Differences between small and large businesses

There are some very significant differences between the cultures of small and large businesses:

Small Businesses	Large businesses
Nepotism and putting the family first is the normal way of management	Nepotism is frowned upon
Emotions can run high and unchecked	Emotions are kept under control (normally!)
Temperament of the owner / manager defines the products and market sectors	The business defines which products and market sectors it wants to go into and then finds a manager with a suitable temperament
Delegation and empowerment are a very hard step to take	Delegation and empowerment are normal
Unit managers are often part of the family	Unit managers are the key strength of the large business and are normally the source of the real knowledge and experience in that business
Cashflow is all important	Most managers have little knowledge of cashflow
Values and moral behaviour tend to be higher	Values and moral behaviour can be lowered by peer pressure and group think
Promotion is often limited by the family	Promotion is by ability, common values and achievements (and by politics)
Everyone does everything	Delegation and demarcation

Redundant Executive

There are serious problems which need to be recognised when executives from large businesses set up a small business on their own. They have to learn a totally different set of skills with some fundamental changes in their attitudes and in the way they work if they are going to succeed.

Redundant executives often try to recreate the systems and processes and the organisational structure that they had when they worked for large businesses. For example:

- They have secretaries and lots of staff and they build a business that is too big for the amount of profit coming in.
- They trust that the big businesses will pay them and they do not understand cashflow and the implications of working capital.
- They do not always recognise their own weaknesses and take the appropriate steps to alleviate them.
- They accept that they are not going to make a profit for the first two or three years but have not necessarily worked out where the money is going to come from to pay for this loss.

Small businesses should have a profit motivation from certainly the start of the second year, if not earlier, and should be making a profit from then onwards. If they are not, then they should seriously look at their cost structures, overheads structure, attitudes and staff, and determine why not.

Owner / managers have to adopt this attitude of being ‘lean and mean’, not spending money and making a profit. This attitude is actually quite hard for an executive from a large business to get hold of and adopt.

Partners or Sole Trader

Whether the owner / manager should be a sole trader or work with partners depends entirely on the temperament of the individual and whether a suitable partner is available. Partnerships, when they work, seem to grow much more quickly and the businesses seem to be less stressful than sole traders.

The ideal partnership appears to be when one of the partners is externally orientated and the other partner is internally orientated. If the partners have the same temperament, then they can often fall out. Partners’ temperaments need to complement each other and complement each other’s strengths and weaknesses.

However, partners do fall out, often when the business has been going for a few years and the needs and motivation of one of the partners changes. The divorce can be quite traumatic so this is normally best done quickly and equitably, using a mediator (not a lawyer) to help. See www.cedr.co.uk for details of mediation.

When a business loses a partner and becomes a sole trader, the owner / manager / sole trader can often be dismissive about the attributes of the previous partner, and will not realise or recognise their own weaknesses which were being covered by the partner’s strengths. This can have disastrous consequences.

When a partner leaves, the areas that were delegated to that partner then need to be delegated to somebody else. If the remaining owner / manager / sole trader cannot delegate, then the business needs to determine just how it is going to survive in the future.

Computer Business

A computer business was set up as a management buy-out of part of a business that went into receivership, and quickly achieved a turnover of £2 million. The two partners worked well together, with one providing technical expertise and the other providing marketing and service expertise, and both made a very good living. Ten years later the partners fell out and the technical partner went off on his own.

However, the marketing partner had never been fully involved with the technicalities and, rather than recruiting a new technical director on a salary of £70,000 plus, he decided that 'the technical aspects cannot be all that difficult anyway' and he or his present staff could handle them. Over the next two years, the business lost over 50% of its customers because the technical solutions did not work properly.

The owner / manager then recruited a Technical Director and retrained his staff. The business recovered within 18 months to its former level of turnover and profit.

8 BUSINESS CLOSE DOWNS AND FAILURES

Exhibit 3.7 gives seventeen reasons why businesses survive the first three years. Businesses fail for all sorts of reasons but it is either explicitly or implicitly the fault of the leader / owner / manager. Five of the main reasons why businesses fail are:

- The owner / manager does not recognise or accept the changes to the business environment and take the appropriate steps to remain competitive.
- The owner / manager becomes de-motivated, or suffers burnout and stress.
- One of the partners leaves (see above).
- The owner / manager gets too involved with new product development or moving premises, spends too much time and money on it and does not concentrate on running the business.
- Real financial and management information is out of date or just wrong and hence decisions are made on false information, or the situation is just allowed to drift out of control.

Stress and burnout

Owner / managers suffer a high degree of stress which can often get worse as the business becomes more established and the owner / manager reaches middle age. At this stage their priorities in life often change and the business is not necessarily the most important thing any more.

When this happens, the owner / manager needs to seek professional advice to assist them through the crisis period and to help them to decide what to do with the future of the business. Often these crises only last a year or two before the owner / manager re-establishes their values, works out what is wanted out of the business, sorts out the processes and organisation and gets on with life again.

Exhibit 3.7 Seventeen reasons why businesses survive the first thee years

1 **Learn your trade**. A lot of small business owner managers actually do not know their trade and then they wonder why they get into difficulties. If you are a trading business, learn how to buy what the customer wants, how to sell it and how to make a good margin in the middle.

2 **Develop a lean and mean attitude to costs and expenditure.** If you have too much money to start with then you can become lazy and slack with your costs, especially labour time. This means that you do not develop a lean and mean attitude.

3 **Learn how to run a business of the size you have become**. Small businesses under £500,000 often do not need a full time administrator / accounts, while if the turnover is over £2 million you almost certainly do. If you are a project based business, learn how to manage projects of the size you are doing.

4 **Sweat your equipment.** Make sure that your equipment and facilities really work for you and that you get a good return on the investment. Do not buy anything that you do not really need. Consider subcontracting out various operations to reduce capital expenditure.

5 **Work your staff.** The utilisation and productivity of your staff are the difference between profit and loss. They must be working hard and smartly as they are very expensive.

6 **Sort out your processes and systems.** These should be set for the level of your turnover so that you are not wasting your customer's time or your staff's time. Do not tolerate any waste. Ensure that you have a good accountancy system and issue monthly management accounts and KPI's.

7 **Profit attitude.** Develop a profit attitude so that you are making a profit as quickly as possible. For most small businesses they should be achieving a cash breakeven within 3 to 12 months (ie excluding depreciation) and a full profit breakeven within 12 to 24 months

8 **Cash control.** Monitor your cash control, produce cashflow forecasts, send out the invoices and chase them for payment. Minimise your stock and WIP. Most importantly understand how working capital works. Borrow extra working capital early as it is difficult to raise it in a hurry.

9 **Focus your products and services on what customers want.** Often small businesses have a scatter gun approach during the first two years. By the start of the third year, it has to be focused on what makes a profit and what makes the business special, ie your USP's.

10 **Focus your marketing on the profitable market sectors**. The first year is normally spent selling in your comfort zone. By the third year you normally have had to move on to new profitable sectors outside your initial comfort zone, but within your temperament.

11 **Focus on customer service and quality**. Small businesses survive because they can provide a personal level of excellent customer service. Give the customer what they want, how they want it. Ensure that your quality is excellent for the market sector you are in, compared to the competition.

12 **Monitor the competition** and analyse in detail how you can be better than them, and then do it.

13 **Analyse and acknowledge your strengths and weaknesses**. Play to your strengths and make arrangements to eliminate your weaknesses. Lean how to assess, manage and reduce business risks.

14 **Make sure that business model works.** This includes pricing, gross margins, cashflow, capital expenditure and turnover. Remember the 80/20 rule and do not become too reliant on one customer.

15 **Get the best managers, supervisors and staff**. Choose well and if they do not fit into your team and culture, part company quickly and recruit again. A shared vision and mutual trust are vital.

16 **Learn how to manage your staff**, including management team performance, communications, meetings, delegation, empowerment, management of internal conflict, time management and a culture of continual improvement.

17 **Control your capital expenditure** and match the loans with the life of the equipment. Chase grants if they are economically viable.

All owner / managers need to watch out for the symptoms of burn out including:

- Complaining of fatigue
- Being overworked
- Exhaustion
- Showing loss of enthusiasm, energy, drive, team spirit
- Showing loss of imagination, creativity, refusal to take risks
- Fighting change, being inflexible, rigid, unyielding
- Becoming defensive easily, allowing relationships with key people to deteriorate
- Getting disorganised, having poor recall, memory loss
- Rationalising, passing the buck, withdrawing

The key to eliminating burn out is early detection within yourself and others. Watch for the gradual development of any of these symptoms and if you detect some of them try to help the people just to step back from the situation and to re-evaluate their role within it.

There are certain easy steps for day to day stress reduction including:

- Schedule leisure time and commit to it. Exercise
- Find ways to laugh
- Consciously slow down when you are not working
- Change negative thoughts into positive thoughts
- Continually search for a change in scenery
- Rethink what you eat, drink or smoke

A bank will quickly call in the overdraft, which normally lead to closure of the business, if the bank manager thinks that the owner / manager has lost their commitment and motivation for the business.

Mentor

Most owner / managers, especially if they are working as sole traders rather than in partnership, need a mentor in order to have somebody with whom to discuss the business and the way it is going. Being an owner / manager / leader can be a very lonely position and an external mentor alleviates a lot of the problems associated with this loneliness. A good administrator / PA also helps a lot.

SUMMARY

Small businesses are normally run as benevolent dictatorships by an owner / manager and the success or failure of that business almost entirely depends on the characteristics and behaviour of that leader.

Owner / managers must recognise their strengths and their weaknesses and take the appropriate steps to ensure that their weaknesses are covered.

If owner / managers want to grow the business, then they must delegate and empower their staff, having first set out the vision and the values for the business.

However, if the owner / manager loses interest in the business, then the leadership goes and often the business folds fairly soon afterwards.

MANAGEMENT CONSULTANTS

QUALITY information

mob: 07779 981230
martin@qualinfo.co.uk
www.qualityinformation.co.uk
location: Conwy, North Wales

Martin Harrison, Management Consultant and Trainer

Martin Harrison is an independent management consultant who specialises in helping small businesses and social enterprises with between 5 and 50 staff to grow, develop, and improve their efficiency and profit. My work is split equally between helping businesses in North Wales and helping development NGO's and hospitals in less developed countries. Typical projects include:

- **Business Review.** These assignments are typically for 2 days during which I carry out a full review of the business. By comparing the business results and processes to the industry models, I define the areas in which the business can be improved, for example competitive strategy, cashflow, marketing, customer care or operational requirements.

- **Mentoring owner managers or NGO's.** The mentoring projects are from half a day to one day per month spread over a year or longer. The purpose of mentoring is to help the management and the business through a critical stage, for example growth or a financial crisis. The process starts with reviewing where the business or NGO is and where it wants to get to. This is written as an agreed action plan or business plan which I then assist the management to implement.

- **Modernising Hospitals in less developed countries.** The first stage of a modernising hospital project is to define where the hospital is, where it wants to go and what are the key issues. Typical key issues include high staff turnover, no computerisation, poor cash management, corruption, no delegation or management term culture, high infection or mortality rates etc. The second stage of the project is essentially a mentoring project, assisting the managers to put in place the attitudes, values and culture as well as the systems and processes to modernise and stabilise the hospital.

- **Business Growth.** The first stage of a business growth project is to define how to grow the business, whether it is by 10% or 50% per year and what are the key issues. Typical key issues include establishing a management team, delegating responsibilities, sales and marketing, profitability and gross margin, and cashflows. The second stage of the project is essentially a mentoring project, assisting the owner manager to achieve this growth.

- **Business Planning.** The assignments are normally for 3 to 5 days during which I review with the owners / managers where the business wants to go. I then write the business plan, including financial details, marketing plan and cashflow, and discuss it with them in detail.

- **Management Systems.** As a small business grows above £300k turnover, efficient management systems are vital to ensure profitability. Management systems include the accountancy system, sales order processing, design, purchasing, stock, manufacturing, dispatch, quality, ISO 9001, environmental, ISO 14001, HR and health and safety. I carry out a review of the systems and propose improvements. I can also carry out a review against the requirements of ISO 26000 (Corporate) Social Responsibility.

- **Management Training.** These training courses or workshops are written or adapted to meet the specific needs of the delegates and the organisation. Subjects include Strategic Reviews of Small Businesses, Project Management, Financial Awareness, Marketing and Customer Care.

Martin Harrison MA, MBA, CEng, FIMechE has been a management consultant for over 25 years and has assisted over 500 businesses. After obtaining his degree from Cambridge University, he worked in petrochemical engineering design and construction in various countries and qualified as a Chartered Engineer in 1979. In 1987-89 he was the Group Manager with overall responsible for the MOD projects (value £55m) for Kennedy and Donkin. He became a partner of Quality Information in 1989.