Release your profits

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Our approach

Clear thinking, like common sense, is straightforward but rare.

We help you think clearly about your business using a handful of really simple tools that are outlined in this white paper.

You can use the information in this paper to analyse your own business and avoid consultancy fees completely. If you find the tools here useful, though, you may want to talk to us about the experience that we have had in implementing the outcome of this planning process.

In every case, we can help you for a fraction of the cost of traditional management consultants.

There are three reasons for this.

1. We are not greedy. We simply get paid for the work we do, the same as you.

2. We give you the help you need to do the job yourself. Consultants usually keep as much information to themselves as possible, to keep the work coming in. We give away

everything we can, for nothing, to make as much change as we can as fast as possible.

3. We believe in what we do. We only work for people who have a passion to improve the world and we want to work cooperatively with you to achieve the same ends. We really care about what we are doing.

There are two ways to go broke. One is quite pleasant. It involves sitting on a beach and not working (substitute your favourite activity). The other is by working really hard in a business that does not make any money. That is fate is an awfully real possibility for many small business owners.

We are here to help you avoid that fate.

The customer is key

Every business needs customers. Without customers your business is just a millstone dragging you into bankruptcy.

Most successful businesses have happy, loyal customers. Occasionally a small number of companies control a market and customers are not happy, but you are not one of those companies, otherwise we would not be working with you.

Every customer that turns up at your doorstep, visits your website, or calls your telephone is another chance to make profit, to move one step closer achieving to your goal. The customer is the key to your business.

The importance of sales

That means that the sales process is generally the most critical process in the business. In more than sixty percent of cases, we can start to improve the profit of a business by reallocating resources within the sales process. RAMP up your business by RAMPing up sales.

Not always, sometimes a new product is so brilliant that it succeeds despite a flawed sales process.

Sometimes other flaws in the company waste all the profit available from a successful sales process.

Unless things are really very badly broken, nearly every business will do better, if sales increase. That's why this white paper starts with the sales process.

If sales is not the problem in your business then skip this and start with *Understanding your business*.

The sales process

The sales process starts when the customer first makes contact with your business and ends when they engage in a legally binding transaction that commits them to paying you money.

The sales process is the process of converting each customer contact into a sale.

The steps in that process are defined by some document that changes hands or transaction that takes place.

Some sales processes take only seconds, others take years.

It does not matter how long or complex the sales process seems to be, it is worth dissecting and analysing and then measuring on an ongoing basis. These statistics become the basis of the decisions you make each month, or week, or day, to fine tune your business.

If you run a website that sells things through a shopping cart, you will have access to statistics that show how many people visit your website, how long they spend on the site. You can compare those figures to how many people add something to the shopping cart and to how many people get all the way through the process to actually pay for it.

The steps here are

1. visit the site,
2. add a product to the shopping cart,
3. go to the checkout,
4. complete the transaction.

By comparing the figures at each stage of that process we have a very clear set of numbers showing how successful each stage of the process is. We can quickly identify which stage has the largest drop-off rate, and spend our time working to improve that.

Defining the pipeline

The flow of sales through the process we have just described can be thought of as a pipeline.

Each stage in the pipeline needs its own attention to mazimise the flow through to the next stage. If your pipeline is steep, that is many customers are disappearing at each stage, then you need to examine what is going wrong at that stage.

What you want is the pipeline to be as flat as possible.

Once you have defined the pipeline, work out how you are going to collect the statistics for the number of customers that complete each stage.

The easiest way is to simply keep a list of each customer contact, with the date, and a name of the product or project that the customer wants to talk about.

You can then record the date at which they get to each stage and analyse that using a spreadsheet.

For any given time period you can identify how many customers completed each stage.

You can then graph over time the ratio of customers completing each stage in comparison to the others.

You can also define the activities required to help the customer get to the next stage.

Measuring the frequency (and cost) of these activities against the success, gives you simple cost-benefit analysis of the sales activity to fine tune those processes into the future.

This sales pipeline management has been so successful that it is now commonplace across organisations and most sales management software.

Do sales limit your business?

We need to remain aware, though, that the sales process does not operate in isolation.

There is no point investing resources into improving the sales process if there is simply not enough product to supply to the new customers. In many cases the problem is not the sales process but the number of customers making contact with the organisation.

We can use selling techniques to get more customers in the door: standing outside the shop and spruiking, for example. Generally speaking though, communicating with potential customers is a marketing issue, not a sales issue.

The simplest way to identify if improving the sales process would help your business is to work though what would happen to your business if the number of sales doubled.

If the operational side or financial resources of the business could not cope, then you need to analyse the business as a whole.

If you could not double sales with the existing customers then you need to broaden the analysis of the sales process to include the communication with your potential customers.

If you need more customers to make contact with your company so that you can maximise the use of the existing resources then you should focus on the communications techniques discussed in the next section of this document.

Talk to your customer

The entire advertising industry with its related public relations, exhibitions is geared toward getting the message out to customers about the products and services of the companies that sell them.

We all know that the big name products spend millions on advertising and that those dollars result in sales. The problem is that you do not have a huge advertising budget and there is no way of knowing whether any individual advertisement is actually working.

Ebono Institute will help you design a marketing program that is geared toward sales, not toward promotion and publicity. We will help you use the latest technology to do this cost effectively and cleverly so that you make money from every dollar that you spend.

Identify the customer

The easiest way to do this is to go straight out there and talk to your customers. This is essentially skipping the whole marketing process and going straight into the sales process.

There is just one catch. You have to know who your customers are.

If you are tempted to say “Everybody” you have a problem.

No-one sells to everybody, except the biggest companies on the stock exchange. Even they have a core market who identifies with them.

You know your customers. They are people like you.

When you set up your business you had a very clear idea of who it was you were going to sell to, you could imagine yourself selling to them before you even thought of the name of the company or designed the first logo.

What you need to do now is clearly describe those customers in such a way that someone else can identify them. Most importantly, you need to describe those customers in such a way that they will identify themselves in your description.

We have identified the customers of the Ebono Institute as green businesses. We also use terms like small business, business with a passion, people who put principle before profit – but they all mean the same thing. Green business is a good term for us, because if you don't identify with the term, then you are probably in conflict with our core values.

That cuts out a lot of businesses and reduces our potential market, but we believe that it makes our customers identify more closely with us and that is more important. If all the businesses in Australia suddenly wanted our services, we would not have the capacity to service them, so there is no point trying to sell to every body, anyway.

Once you have rigorously identified your customers, you have probably come up with a couple of different groups.

Each group will need a slightly different approach and thinking that through is a critical part of communicating effectively.

The meaning of brand

Your brand is not your logo, or even your tagline. It is not your mission statement or your vision, though ideally they encapsulate your brand well.

Your brand should not change over the years and it should be something that you can describe in a few words, or talk about for hours, that you can explain to a twelve year old, or that you could write a university thesis on.

It is the identity, the personality, the character of your business.

Successful brands are known by everybody. That means they are simple, instantly recognisable, and mean something to the people who use them.

There will generally be a logo, or a tagline, or a colour scheme or all three that form the brand and that have been consistent over the years.

Famous brands include Coke, Vegemite and Apple.

The red lettering and classic coke bottle is recognisable in artwork a century old. Coke television ads from the sixties are re-packaged and reused as nostalgic reminders of the power of the brand. Vegemite does the same thing.

Apple's innovation has built a loyal following that hang out at Apple stores and upgrade their products like music fans used to buy records. They have turned the geek into the chic.

The competitors of these products seem inferior in some way even though we might not know much about them, or we might use them because they are cheaper.

Brands can lose their cachet and go from being powerful and popular to being last year's model. Apple has offended many customers by requiring a cable upgrade for its latest iPhone. Woolworths has stretched the believability of its *fresh food people* branding by putting its colour scheme on petrol stations, investing in bottle shops and gaming machines. Microsoft has offended its customers with aggressive licensing policies and failed to justify its pricing by keeping up technically with Apple, Google and others.

To develop a brand you have to know exactly what it is about your business that makes it unique.

You have to know who your customer is and you have to be able to describe the unique offering of your company to that customer in a few simple words.

Whatever your brand is, you would defend vigorously if someone else claimed to be that and you would feel perfectly confident dismissing your competitors for not being what you are.

This does not mean you have to be the best in the world, or the biggest, or the only. You might be the newsagent on the corner and your unique advantage is that you are really friendly. That's fine.

All that is required is that you are comfortable and confident that what you tell people you are is really true and really good.

Communicate clearly

Being clear about who you are and who you are communicating with is more than half the battle.

Being able to express that clearly is often a matter of being yourself and often a matter of allowing the professionals to do their job without your interference.

I never discuss the details of design with a designer. I just tell them whether I like it or not, and when it is not achieving what I want I try to explain why not.

I never argue about the technical content of corporate communication with a client but I regularly say, if I can't understand it how is your customer going to?

- Use simple language.
- Use short sentences.
- Say one thing at a time.
- Tell the customer what you want them to do.
- Get professional help when affordable.

Measuring success

You can spend as much money on marketing as you like. There is no end to the advertising sales people who will call you, or limit to the budget they will dream up if you give them the chance. You could go to trade shows around the world with wonderful displays.

The only way to ensure that your marketing is well spent is to tie it directly to a sales process and to measure it as you go.

Instead of doing marketing for its own sake, start with the sales objective and work out how to get the customer in the door.

Let's day you want to sell a new product.

Instead of thinking about the best way to promote that product, or copying the marketing that the manufacturer used overseas, work out who you are going to sell it to and how many sales you want to make.

Now, based on the general success rate that you have converting customer contacts to sales you know exactly how many customer contacts you need.

Now, work out where it is easiest to get that many customers from who will contact you.

Now work out what you need to do to get those customers to contact you.

That is your marketing program.

Now you can measure its success, because you already have worked out the numbers you need to achieve. The only unknown is the ratio of customers contacted by you to customers who contact you. That is the success rate of the marketing campaign.

Understanding your business

Business is a process

Your business satisfies a need that your customer has. In fact, your business is a process that converts the customer's need into money. That is the process of your business.

The advantage of understanding business as a process is that processes are simple, they have steps, and the progress through the process is measurable.

We measure the progress through the process as a flow.

In business we measure the flow using dollars as our basic unit. This makes it very easy to determine how successful each step in the process is.

This white paper uses the language of flow and the measurement of money to analyse and discuss how business works.

To do this, you need to understand the process that generates profit in your business.

In manufacturing, we turn raw materials into products. This is a process that most people understand. When Ford invented the production line he brought the process of manufacturing into public eye in a spectacular and simple way.

You now need to do the same thing to your business process.

Find the top-level process

In a successful business we turn a small amount of money (our capital investment) into a larger amount of money. The profit, the difference between the money the shareholders put in (for small business owners that's you and your life savings) and the money the business returns, is the product of the business process.

Understanding the process of generating profit will help you to better manage it.

By correctly identifying the process through which money flows in our business we can place the correct management emphasis on each of the steps involved.

Avoid the side tracks

Sometimes it is hard to identify the main process that makes money.

Money might come from lots of different activities. There may be investors that put money into a business, customers that buy products from it, or clients that make use of its services. Some money might be paid in advance for services that will be delivered in the future, other money might be paid on account, well after the goods or services have been provided. All of these different activities involve some process and have some business cost associated with them. The challenge is to collect all these individual processes into one grand process that presents a simple model of your business.

If you look at your business as a banker or a potential investor might look at it, it may be easier to get a bird's eye view of the process at work.

In many sales organisations there is usually a process that involves steps along the lines of marketing, sales, logistics and fulfilment. Service organisations generally have some a client acquisition, client management and delivery process. Manufacturing organisations engage in research, development, production and sales.

To help you understand your business it may be useful to find someone outside your business who you trust: Someone who can help you stand back and take a creative view of what your business does.

Unfortunately, many businesses do not have the money to hire consultants to help them think strategically. Fortunately there are some consultants specialising in these techniques who will base their fees on results. They will charge you by taking a percentage of the extra profits their advice generates in your business.

Of course, only you have the necessary information to determine the actual process which makes money for your business. It may be easier to study the approach described in this book and learn how to apply the principles yourself.

One way to think about the process of your business is to explain it to a twelve year old. Seriously. Einstein noted that if you cannot explain something to a twelve year old, you probably do not understand it yourself. I find that a very useful thing to remember.

Real world examples

Here are some real world examples that have helped me form a well rounded picture of the sorts of processes that make business work.

A major cinema chain describes their properties as "boxes." They make money by renting the boxes one seat at a time. They measure the profitability of their business by the occupancy ratio. What percentage of the seats have been bought. A block buster movie keeps the occupancy high.

To run their business they purchase and develop "boxes." They use movies as a way to get people to pay to rent the boxes. It was by taking this view of their company they came up with the half-price Tuesday approach to keeping the box office ticking over on slow days. They are now exploring other events to maximise the utilisation of the boxes.

The executives of the company spend their time thinking about cinemas as "properties" and schemes for renting those properties, such as corporate entertainment packages as "marketing". They leave the business of showing movies to the operations department that operates the properties on their behalf. The operational managers have performance indicators based on occupancy rates. The movie acquisition and programming staff do too. The whole business is geared to keeping the flow of money through the process at a maximum.

It often bewilders outsiders that many **magazine publishers** will spend more money on bribing readers to subscribe to their magazine than the subscribers will pay for the first year's subscription. In fact, many magazines are given away to their readers.

From the publisher's point of view, the profit is generated by the advertisements in the magazine and the rental of the names and addresses in their subscription database. The subscribers are the product bought by the advertisers and the people renting the lists. The magazines are simply a mechanism for acquiring the subscribers.

These examples have been deliberately chosen because they represent a view of business that may not be obvious to the lay-person in the street. Most businesses are comparatively straightforward.

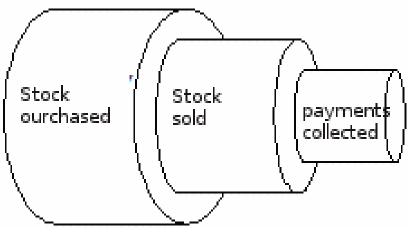
You do not need to take a radical view of your business to get advantages from this approach. The important thing is to be able to identify a process that explains how the money flows through the business. Identifying the process helps you position the limiting factor where you can maximise profit.

Measure the flow

We have already said that the unit that will be used to measure the flow is dollars.

A retail shop can measure the retail value of the stock bought each month, the value of the stock sold each month and the number of dollars collected from all the various repayments etc.

The process might look like this.



It is easy to measure the success of this business because the dollar value of each step in the process is clearly defined.

Define your process

It is a lot harder to define the business process in many organisations.

The easiest way to describe this is to use an example.

Most service companies use billable hours as their measure. We worked with one company who did this that produced computer software for its clients.

The owner assumed the software programmers where the most important resource in the organisation. The organisation was built around billable hours worked by the developers.

Once the managers of the company started to think about the way that money flowed into the organisation and realised that the developers actually needed to have some spare capacity, so they could handle peak load.

Another consideration was that operational managers felt that the focus on billable hours was creating problems in the management of the organisation.

Development meetings and monthly budget meetings all focused on the number of hours that had been billed, then separate meetings needed to be held to review where the developers where against client expectations. The fact that this difference in focus presented a real business problem was made obvious on those occasions where monthly revenues dropped below a satisfactory level.

A management pep-talk would be held, urging the developers to do more billable hours. The following month the number of billable hours would rise, as requested. The only problem, there was sometimes no noticeable difference in the progress toward delivering customer projects.

After a lot of discussion, a new model emerged replacing billable hours with completed projects.

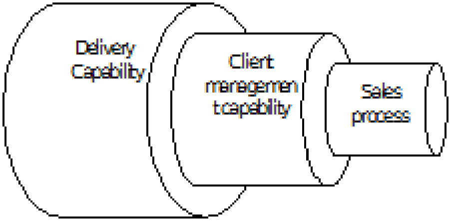
This was a fundamental and radical shift in the notion of the process of business. This new model involved a different measurement of the throughput of the company. Whereas previously it had been a process that measured hours, now it was a process that measured projects.

Note that both measures are made in dollars. The difference is that where as the customer had previously been paying for the number of hours worked, now they were paying for the work completed. This not only helped the company itself refocus its management it offered the customers a much better value proposition.

The effects of the new model internally were no less dramatic.

The projects were measured in terms of the dollars of revenue they generated and each one was given an end-date. Large projects were broken into a series of milestones, each one with a dollar value.

Now development meetings focused on whether projects had been delivered on time and what resources where required to meet the next milestone. The client expectations were discussed at the same time as the internal resource allocation. These meetings where now the natural input to the accounts meeting where the billable milestones were converted into invoices and the client management implications of raising these invoices discussed.



Given that project dollars were now the unit of measure going through the organisation and it was realised that the best way to grow the business was to have capacity to deliver everything that customers wanted a new process was designed.

One of the dramatic realisations of this analysis is that the process critical to the long-term health of the organisation was being left largely to luck. It became a matter of urgent priority to design and implement an appropriate sales process.

Change your business

You are going to make changes to your business. If you were not, you would not be reading this paper.

Change management is a difficult process that many companies get wrong, even when they spend tens and hundreds of thousands of dollars on professional change-managers.

The key is to plan thoroughly and proceed carefully.

Especially in a small business you need to do things more or less one step at a time.

Plan the change

One way to simplify your focus is to use a tool that allows you to turn a list of problems into a business plan.

First developed in conjunction with a client in 1999 this approach is known as binary cube analysis and it generally takes two half day sessions with the board and senior management.

The aim of the process is to identify all the desirable changes and prioritise them so that there is a step by step plan toward a business that has none of the existing problems.

The first step is to align all the problems and desired changes into a now and then format so that the current behaviour is clearly identified and so is its desired replacement. (We currently send our invoices by mail, we want to send them by email.) These are the binary pairs referred to in the title of the approach.

The next step is to group these problems/desirable changes into a small number of areas and identify the dependencies between them. (The dependency for the electronic invoicing example might be that we need a new accounting system.)

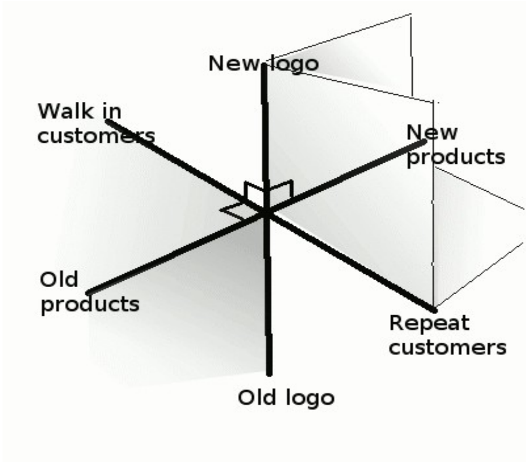
The problem/change pairs that are dependent on each other, then, can be listed in order, and then we end up with a number of groups of changes that are not dependent on each other.

Then we can start by taking the first step on each list, three at a time and arranging them in set of X, Y, Z axes.

An example will help.

Sets of dependent changes for a retail shop

New product lines	Reorganise shop	Redesign logo	Design customer loyalty program
New website	Redesign front of store	Start advertising	Collect customer details
Sell interstate	Get separate warehouse		Build affiliate program



Now we pick the three most important elements off the first line

They might be New product lines, redesign logo, design customer loyalty program.

By arranging them on the three axes we end up with a cube divided into eight smaller cubes. We are currently in the “Old product, Old logo, Walk in customer” cube. We want to move to the “New logo, New product, Repeat customer cube.”

We know it is much easier and more comfortable to change one thing at a time and the cube helps us visualise the best journey from where we are now, to where we would like to be. We might decide that re-designing the logo is the easiest, least disruptive change and that replacing the old product lines will take some time and will give us an excuse to go out to the existing customers if we offer the loyalty program first. On the above diagram then, our journey will be up, one step to the right and then one step forward. We will not go through the cubes with the old logo and the repeat customers.

We can repeat this process as many times as we need to until we have ticked off all the changes we want to make.

It is a very simple and powerful concept that allows us to build a plan for radical change taking baby steps.

We find that small businesses can determine a strategic plan, in a very short time for a few thousand dollars, instead of spending more than ten times that amount on expensive big end of town consultancy.

The major advantage is that the business owner themselves is in control of the entire process.

You can try it yourself right now, without any more input from us.

If you want our help it will only take one consultant three half day sessions to work through it with you.

One to do an initial interview and get a handle on the business, one to work through the process with the key stake holders and one to present and finalise the conclusions.

These are the simple, effective tools that can make a major change to your business.

The fallacy of balance

The ideal business is one that generates high profits on a small investment. The relationship between profits and investment is a key indicator to all investors. In many industries this is referred to as the yield.

Generally speaking, management energy is divided between keeping costs down on one hand and increasing revenue on the other. The control of costs is often the primary focus of the finance and operations departments while the generation of revenue is the focus of the sales and marketing side. The present prominence of Chief Financial Officers in the business pages of financial newspapers is an indicator of the investment community's current focus.

This is because of the simple fact, if we can reduce the costs of operating a business without damaging the revenue stream we increase the yield and make more profits for the shareholders.

This is why retail banks are closing branches, telephone companies are operating less public telephones and manufacturers are moving their production to countries with cheap labour.

The mantra of the modern manager has become maximum efficiency.

Just-in-time manufacturing and delivery means that product is made just before the customer orders it. The scanner at the supermarket checkout is linked to the computer at the central warehouse which automatically generates orders from the supplier. As you buy a box of cereal, another box gets earmarked for delivery to the supermarket tonight and its replacement gets ordered from the manufacturer.

These systems have worked extremely well in reducing the amount of waste in the fast moving consumer goods sectors of the economy.

One way that businesses try to apply this approach internally to reduce costs is by getting rid of excess capacity. The theory is that if anyone who is not busy all the time is a wasted resource. The plan is to keep all parts of the business working at maximum capacity all the time, getting the process running smoothly just like the box of cereal going from the manufacturer, to the warehouse then the supermarket shelf.

Following this theory we would balance the capacity of each step in our process so they all worked at full capacity all the time.

Our hypothetical clothing distributor would buy 1000 units per day, handle 1000 units per day, and sell 1000 units per day.

There is one problem. This does not take account of natural variation.

The sales might average 1000 units a day but they are going to vary from, say, 800 units a day up to

1200 units a day. Of course, as long as the average is the same as the warehouse capacity, the warehouse will be able to catch up later what it could not deliver today. All that will happen is that products will be delivered a bit later in busy sales periods.

But that's not very good for business. Just when everybody wants to buy our products the stores are running low on them.

It is not as efficient to have excess capacity in the warehouse, but it will certainly help us take advantage of those peak periods.

Even worse, there will be natural variation in the ability of the warehouse to deliver. Some days more staff will be off work than others. Machines will break down, systems will need to be maintained. If the warehouse is operating below average at the same time as sales are running above average, the delays in delivery will spin out well past an acceptable level.

The best way to avoid this situation is to organise for a sensible level of excess capacity in the warehouse. In fact, what this means is that we are recognising that we prefer the sales process to be the limiting factor in our business, so we organise for excess capacity in the warehouse so that it is NOT. We actually will make more money if we have some spare capacity “upstream” of the sales department to be able to respond to peaks in demand for our products.

Managing projects

Our experience indicates that it is critical that even the simplest projects are managed so that each team member knows what they are expected to do and then they should *start*.

We emphasise the start date because most project management approaches focus on the end date.

There is an entire Whitepaper – *RAMP up Project Management* on our website, but the essense of it is that is much easier to lose time due to delays than it is to get ahead of schedule. The reason is that some common human foibles and some simple mathematics combine to cause the tendency for projects to run late.

The simplest way to get around this is to have everyone focused on when they should start, what they need to get started and who they should get it from.

This allows them to manage the project up stream, reducing the time it takes for project managers to become aware when things are running late.

The task management spreadsheet published as part of our standard checklist is a good way to apply this approach without spending any money on technology.