

Dr. Tom McKaskill

MASTERCLASS FOR ENTREPRENEURS

on

Business Growth

***INSIGHTS ON HOW
TO ACHIEVE HIGHER
GROWTH IN YOUR
BUSINESS***

BREAKTHROUGH PUBLICATIONS

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Key Points

High growth successful ventures have a systematic process for engineering growth into their businesses.

Any business can improve its profitability and growth prospects through an understanding of growth drivers.

Successful high growth ventures take a holistic view of the business. Every facet of the business is important. It is not sufficient just to have a great product or service.

Entrepreneurs by themselves don't build successful ventures. They do it in combination with their customers, suppliers, partners and employees.

Dr. Tom McKaskill



Global serial entrepreneur, consultant, educator and author, Dr. McKaskill has established a reputation for providing insights into how entrepreneurs start, develop and harvest their ventures. Acknowledged as the world's leading authority on exit strategies for high growth enterprises, Dr. McKaskill provides both real world experience with a professional educator's talent for explaining complex management problems that confront entrepreneurs. His talent for teaching executives and his pragmatic approach to management education has gained him a reputation as a popular speaker at conferences, workshops and seminars. His approaches to building sustainable, profitable ventures and to selling businesses at a significant premium, has gained him considerable respect within the entrepreneurial community.

Upon completing his doctorate at London Business School, Dr. McKaskill worked as a management consultant, later co-founding Pioneer Computer Systems in Northampton, UK. After being its President for 13 years, it was sold to Ross Systems Inc. During his tenure at Pioneer, the company grew from 3 to 160 people with offices in England, New Zealand and USA, raised venture capital, undertook two acquisitions and acquired over 2,000 customers. Following the sale of Pioneer to Ross Systems, Dr. McKaskill stayed with Ross for three years and then left to form another company, Distinction Software Inc. In 1997 Atlanta based Distinction raised \$US 2 million in venture capital and after five years,

with a staff of 30, a subsidiary in New Zealand and distributors in five countries, was sold to Peoplesoft Inc. In 1994 Dr. McKaskill started a consulting business in Kansas which was successfully sold in the following year.

After a year as visiting Professor of International Business at Georgia State University, Dr. McKaskill was appointed Professor of Entrepreneurship at the Australian Graduate School of Entrepreneurship (AGSE) in June 2001. Professor McKaskill was the Academic Director of the Master of Entrepreneurship and Innovation program at AGSE for the following 5 years. In 2006 Dr. McKaskill was appointed the Richard Pratt Chair in Entrepreneurship at AGSE. Dr. McKaskill retired from Swinburne University in February 2008.

Dr. McKaskill is the author of eight published paperback books for entrepreneurs covering such topics as new venture growth, raising venture capital, selling a business, acquisitions strategy and angel investing. He conducts workshops and seminars on these topics for entrepreneurs around the world. He has conducted workshops and seminars for educational institutions, associations, private firms and public corporations, including KPMG, St George Bank, AMP, AICD and PWC. Dr. McKaskill is a successful columnist and writer for popular business magazines and entrepreneur portals.

To assist Angel and Venture Capital investors create strategic exits for their investee firms, Dr. McKaskill conducts seminars, workshops and individual strategy sessions for the investor and their investee management teams.

Dr. McKaskill completed six e-books for worldwide distribution. He has also produced over 150 YouTube videos to assist entrepreneurs develop and exit their ventures.

Tom McKaskill is a member of the Brisbane and Melbourne Angel Groups and of the Australian Association of Angel Investors.

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Preface

Growth is often elusive. We know it is possible. We see it in other similar businesses but often it eludes us. We do everything right - or at least we think we do - and yet we still stagger along at low growth rates. “What do the high growth firms do? Can we do the same?” So it goes on the ever ending search for growth and the endless business books on managing a successful business.

I have spent years looking at the performance of high growth business and comparing those with low growth. I reviewed much of the material in the venture capital sector to see if they had the answer. In the end what I uncovered was some very basic attributes of high growth. Whenever I present the material to a business audience they all nod their heads and agree that they need to stick to the basics. In the end the basic concepts, like strong competitive advantage, are obvious but we simply don't put enough time into ensuring we have a strategy which has the right focus. We are so often chasing the latest management fad that we neglect to ensure the basics are solid.

I hope this series of articles will remind you of the basics and the outcome will be a higher level of growth in your business.

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PART ONE: STRATEGY

“We need to see the business in context of our customers, competitors, industry and the economy. Our task is to position the business so that it finds a place within this environment where our inherent advantages can readily leverage growth.”

-oOo-

CLEAR VISION

A clear vision drives decision making and productivity

How often have you listened to a presentation on a business to then ask yourself the question "But what business are they in?" or "But what do they really do?" If you are confused just by being the recipient of the information, doesn't it make you wonder how confused they must be? Try another test. Gather up a set of business cards at a meeting and then try to work out what each business does. You will be surprised how difficult it is. However, you don't see this confusion very often with high growth SMEs. They seem to have a much better idea of who they are and what problems they solve. This simply comes back to having a really good focus on their mission.

You often see businesses which have multiple streams of activities in different markets with different products. While it is perfectly understandable that the start up entrepreneur will take on whatever they can do to survive, the established business really does not have that excuse. What is very clear is that they lose the opportunity of driving high levels of productivity by spreading themselves across too many activities. Unless you have some natural advantage stemming from a protected market position, the ordinary business is best served by concentrating on developing a competitive advantage through learning curve effects. By this I mean, getting better and better at one activity where they can build expertise, market reputation, customer loyalty and strategic relationships and, by doing so, leverage up their margins.

The biggest advantage of a clearly articulated focus, which defines not only who you are but what you do, is that it helps drive every aspect of the business. The difference between 'we solve our customers problems' to 'we provide safety building accessories to high rise office developers' is staggering if you are running a high growth business. A clear focus helps everyone in the business make decisions. Whether it is what to invest in, what opportunities to pursue, who to recruit or what marketing expenses you should incur, the better focused business has a much greater ability to empower decision making down through the organisation because every employee has a clear grasp on where they are going.

The productivity impact of a well articulated focus comes from the accumulated wisdom and intellectual capital developed over time in the business. Just like the medical specialist who sees 100 times more instances of a problem than the local GP and thus is quickly able to diagnose and treat even the most unusual medical complaints in his or her speciality, the same applies to a business. The firm which builds a deep expertise in a niche market is more able to correctly and quickly identify problems and appropriate solutions, more economically able to assist their customers and be more reliable as a supplier. This in turn drives higher pricing, higher margins and more sustainable growth. The deep expertise acquired is the foundation of their competitive advantage but also their protection from competitor attack. In a growth market, a tight focus will underpin the ability of a business to take advantage of growth opportunities.

BUSINESS MODELS

Look at business models in other industries

The three major forms of innovation are product, process and business model. Only a small portion of companies compete on innovative products or processes, most companies survive and grow by selling the same thing as their competitors but they do it differently. Many of our largest corporations sell the same products and services as their competitors, companies such as Home Depot, Walmart, Virgin Blue, Harvey Norman, ANZ and so on. Their differentiation is in the way in which they connect to the customer. We can learn a lot from looking at the business models of the best companies in each sector.

What we need to do to drive growth is to do something innovative which creates additional value for our target customer. If we are in the commodity product market, we need to find new ways of creating value beyond product utility. One way to do this is to change the way in which we interact with the customer or the way in which we deliver the customer experience.

Some innovative business models have substantially changed industries. Think of the changes in the way airlines operated when they introduced the hub and spoke system. Prior to this innovation, flights were always point to point. With hub and spoke, passengers could be conveyed in larger numbers on each leg by consolidating their movements through a central exchange. Think of the changes in retail shopping with the introduction of shopping malls, category killers (toysRus) and factory outlets. Banks changed dramatically when they introduced the ATM and internet banking. While these were all industry changes, you will usually find that one company gained significant market share by being the first to introduce the innovation.

One of the techniques we can use within our own business to foster innovation is to look at the business models of other industries to see what could be adapted. So could a central clearing house (hub and spoke) system or a larger product one-stop-shop approach (category killer) work for us? In a market which only sells products could rental work? Where the only business model is fixed location,

could a mobile service work? Could you use multiple small central CBD customer service locations with operations located in a warehouse space in an outer suburb where rents are low (the wet and dry store concept from dry-cleaning).

We need to be open to new ways of doing business and ask ourselves if a different business model has something we can use to add additional value to our customers. Or perhaps there is a variation of a business model which we could use to open up new customer markets. You can start the thinking process by reviewing your experience each time you purchase a product or experience a service. What do they do which you could adapt? How do they interact with their customers and how do they create customer value? You will be surprised how much you can learn from different business models and what interesting ideas you trip over.

INDUSTRY GROWTH

Where is growth coming from in your industry – you need to be part of it

Business sectors are never stable. They are subject to change from new technologies and innovations in processes and business models, new regulations and the constant flux of competitors entering and leaving. Without exception, there will be parts of the sector declining while other parts are growing. Even industries in decline will change as demand consolidates and the replacement market takes over from new sales. What is important for the business owner is to understand these changes and ensure they are part of the growth activity.

Growth is often unstable as a market attempts to settle on a specific business model, process or technology. During that period, those companies which are part of the growth activity experience excess demand allowing them to try different products and approaches in the market and to make mistakes and survive them. Not so in the declining sector where cut throat competition is the norm and businesses are desperate to gain as much business as they can to cover their fixed costs. In a declining market, businesses compete on price where discounts, rebates and promotions eat away margins. Far better to seek out the growth spots and work to be part of that activity.

Growth segments can often be predicted. When you see new regulations coming, they will drive changes in the industry and create demand for new products or business models. Innovations supersede older products creating a demand for the new and a business disposing of the old. The internet has broken the supply chain of many industries creating new pockets of demand through new forms of business models where customers connect directly with suppliers.

Innovative companies look for growth opportunities. They monitor changes within their own sector to see what is happening and are proactive in seeking out

growth opportunities. As an example, most sectors have national and international trade conferences and exhibitions where trends are discussed, new products are put on show and businesses look for new ways of connecting to suppliers and customers. These are places where growth opportunities can be spotted and often captured. Many local businesses take the opportunity to sign up agencies for emerging products so that they can catch the next wave of demand.

While you can be lucky in business and be in the right place when demand increases, this is something which you cannot rely on. You need to take control of your growth opportunities. Periodically you need to review your sector and identify the changes taking place. Even a simple question like - 'what has happened since we last discussed the industry?' can throw up insights into changes which need to be reviewed. People within the business need to be sensitive to changes and bring them up for discussion. Such a discussion should be directed at spotting growth opportunities. Without a specific objective, such changes are simply of interest but don't lead to action.

You may need to take on several initiatives to find one which is sustainable. What is clear is that if you don't try, there is no reason to suppose you will find anything to drive your growth.

NICHE GROWTH MARKETS

Where are the niche growth markets?

Many firms seek to create a business in an area where there are already established solutions. They seem to think just by being better, quicker and/or cheaper that they can build a business. However, if the consumers in that sector are already receiving acceptable products or services, then the market is destined to become commoditised, consolidated and only the large will survive. To survive and prosper SME firms need to find and exploit emerging markets or to create products and services that focus on providing better solutions to old problems. Where should you look for niche markets that are capable of generating premium profits?

Professor Clayton Christensen of the Harvard Business School with Michael Raynor have recently published a book entitled *The Innovator's Solution* where they examine the problem of sustained growth. They state that 90% of all publicly traded companies are unable to achieve more than a few years of sustained growth that generates returns above average shareholder returns. They argue that this is neither lack of managerial ability or avoidance of risk. However, market opportunities for firms seeking growth are unlikely to be found in competing for a share of an established market. They argue that growth comes from two sources; capturing a share of a growing market where the consumers are still seeking better solutions and bringing new solutions to problems that are poorly addressed.

Thus higher potential niche markets are found where the problem is being solved poorly or where products are too complex, too expensive or too large to be used to solve other problems. Often these niche markets are overlooked by larger firms as they do not take them seriously or think the niche is too small to bother with.

History is littered with examples which demonstrate this theory. Small disc drives opened up the play station market, transistors drove the portable radio boom, laptops freed us from the office and mobile phones made us mobile. Take the casual and hobby camera user for example. Historically the camera

manufacturers competed in clarity, accessories and size. Then along came the digital camera. The early versions were clumsy, had low resolution, a poor viewing window and poor quality photos. But they allowed the tourist to check the photo before leaving the location. So they solved a problem that the traditional camera could not. A similar situation existed with sending photos to friends and relatives. It was a time consuming and costly exercise to have copies made for people who only looked at them once. Now with digital photos and e-mail, you can send out any number of photos to friends who will can have a look and then delete them.

The SME sector historically has been the source of most radical inventions and new business concepts. Larger companies get locked into their current products and markets and are blinded by the race for ever increasing incremental developments for products that their current customer base is already using. Large corporations find it hard to offer more customised solutions for segments of their market as their manufacturing and distributions systems are best suited to large volumes. The SME can nip away at the periphery with tightly focused niche market solutions or find new ways of solving the problem that undermines the market share of the larger firms.

Where to look? Most successful start-ups occur within an industry that is already familiar to the entrepreneur. So look around within your own industry for problems that are poorly satisfied.

- Is there a sector that is using a general purpose product or service where a more tightly focused product might work better?
- Can you strip down the product or service and offer a lower cost but equally effective solution?
- Are you able to offer a more personalised service, or alternatively, a less personal service that might appeal to a segment of the market?
- Is there a business model that is used elsewhere that might work for this market? Many new start-ups took this approach and have evolved into major corporations or started new industries. For example; fast food restaurants, overnight parcel delivery and internet trading,
- What problem is overly expensive to solve? Can you develop a less expensive solution?

- Is there a process that has a lot of steps in it incurring customer time and cost? Can you reduce the steps and time by automating some of the process or eliminating part of the process through specialisation?

Start with your own industry. What problem is expensive to solve, frustrating because it is clumsy, takes too long because it has too many steps or can't be solved because the current solution is too large, complex or costly. Can you find a different way to solve it?

Alternatively, can you take a product and use it to solve a different problem. Baby shampoo opened up the market for adult daily shampoo. Baking soda was used to take smells out of fridges. Look for how people are using products in innovative ways – this may be your next venture.

INDUSTRY TRENDS

Look at the trends in your industry to discover business opportunities

The most fundamental driver of business opportunity is demand and supply. It is very hard to go wrong if you are always in a situation where you can satisfy demand where demand exceeds supply. Unless you control a rare commodity or a unique source of information or skill which is needed to satisfy a never ending demand, you are going to have to develop a business strategy which seeks out markets where there is excess demand. Effectively, what you are looking for are pockets of unmet demand, perhaps overlooked by the larger corporations. This is where you can gain a foothold and drive growth in your business.

One of the advantages of smaller businesses is that they can service a niche market which would be too small for a large corporation to bother with. Larger businesses like to have the same range of products across their market territories. This provides them with economies of scale but also allow them to standardise their processes. This leave gaps in the market for specialised applications or unusual designs, tastes, sizes and so on. It is these gaps which can provide a growth base for smaller firms. But you have to watch out for them.

When new products come onto the market, they typically aim for the broadest possible reach. That is, they seek to satisfy the wishes of the majority. This always leaves the minority with a less than satisfactory solution or sometimes, no solution at all. If you are a large, tiny or very slim person you will know exactly what this means. If you track new products and services within your sector, you can isolate these unmet needs and develop solutions which pick up demand which is neglected by the larger companies.

Another way of approaching this problem of unmet niche markets is to look out for major and minor trends within your sector. The major trends will be associated with major economic or demographic changes, like economic cycles, aging population, immigration rates and so on. Other trends interact with these,

such as, the increasing use of the internet, concern over obesity, and so on. At the intersection of these trends are niche markets. For example, what are we providing for older obese adults who want to undertake adventure tours. The major travel companies can't be bothered with such niche markets but there are a lot of baby boomers now sitting on considerable wealth who don't wish to be denied the opportunity of participating.

You can project a series of trends into the future and see where the intersections will occur. Providing this is a smaller niche market, the chances are that the large corporations won't be interested. The important factors then are whether the niche is big enough to bother with, will it have the spending power and will you have the capacity and capability to develop new products or services with a competitive advantage.

Firms which secure premium prices often do so by being early in a market when demand exceeds supply. What they need to do, however, is make that a on-going strategy rather than a one off opportunity.

DEEP EXPERTISE

Deep expertise can allow you to own the customer solution

What happens when someone steals your idea and then competes with you? I recall this happening to me with an ERP software product. One of my distributors reported that a consultant had copied our software and was intending to reverse engineer it. My immediate reaction was ‘good luck’. We had spent many years developing the software, building a distribution channel and establishing good reference sites. Anyone who thinks they can acquire deep expertise overnight is fooling themselves.

What I have come to recognize is that deep expertise can be as effective as the protection offered by a well established brand, trademark or even a strong patent. We keep thinking that we need registered intellectual property (IP) to provide us with a competitive advantage, but knowing what to do and when can be a real winner. You only have to think of the years of training that professionals have to undertake to qualify to know that expert knowledge is hard won.

If everyone has the same knowledge then clearly there is no competitive advantage. You need to use this attribute of competitive advantage properly for it to work in your favour. That means going after a niche market, working on nasty problems and building up experience so that you can solve the problem better and faster than anyone else. You need to find an area of need where few people are prepared to put in the hard yards to build knowledge and experience. The best problems are those which require a lot of knowledge gained over many years or across many customer projects.

If you have a niche market with nasty problems, especially those which have a high compelling need, one strategy is to tie up the available source of that knowledge. If you build up a team of experts and therefore control most of the available source of supply of the knowledge required to deliver a solution, you

basically own the market. Anyone who needs a solution has to come to you.

Premium prices are paid to people who solve nasty problems in niche markets, especially if the cost of delay or not solving the problem is very high. If you have a fire on an oil field, a ship which needs to be rescued, a security problem in your on-line payments system or concrete cancer in your apartment tower, you are not going to be overly price sensitive but you do want the best solution you can find. These types of problems often have very few suppliers as the knowledge and experience required to be effective takes many years to acquire. However, a great place to be if you have the solution.

This type of advantage can be acquired in many sectors. You need to identify nasty, complex problems which have a high compelling need and develop an expertise over time. If you are lucky, you may already have such a situation already but perhaps you haven't been marketing it enough. Just remember that deep expertise is a great competitive weapon if used effectively.

EMERGING TECHNOLOGIES

Watch emerging technologies to discover business opportunities

Emerging markets have more resilient business opportunities than mature markets. When demand exceeds supply, immature products can find a market, early entrants can charge premium prices and the vendors have a greater capacity to recover from mistakes. Markets take some time to stabilise and to decide on leadership positions, thus most firms can earn decent profits during this settling in period. The best survive and capture long term market share. The others fail or move on to new markets.

Even if you only take a short term view of an emerging market, you can generate quick revenue and premium profits during this period. If you are lucky, you may end up with a long term share. If your competitors prove stronger or better than you, you can move on to the next one. New markets are emerging all the time and so the business which understands the dynamics of such markets can do very well.

However, to optimize this situation for yourself you do need to pick your markets. What you need to do is to have a lot of things going for you which give you an edge out of the box. If you have intersection between a new product, a new marketplace and a new distribution channel, you don't really want to find all three. The optimal situation is where you only need to work on one of the three, usually the new product. If you already have an existing customer base to work with and an established channel to them, you have broken the back of the problem. It can take years to build knowledge of a new market and the same can apply to developing a distribution channel.

If we simply restrict our emerging market problem to new products into existing markets, the problem is highly manageable. We then either develop new products or go find them. Since the world is littered with new inventions, innovations and new business concepts, finding them is not difficult if you know where to look. However, even after we have found something which can generate

revenue, what we really need is a competitive advantage – that is, some exclusive rights over the solution within our geography for some period of time. What this suggests is that our search should be directed overseas where we can secure distribution rights.

We can start either by seeking out new products and then asking our customers if they need them or by searching for solutions to problems which our customers tell us they need to resolve. By connecting to our counterparts overseas we can find new products or newly available solutions. We can attend industry exhibitions and conferences to find out about newly announced products or new solutions. Many innovative products are created by small firms who seek overseas representatives and distributors. Basically, there are lots of good opportunities waiting to be seized.

If you stick to new products which solve long-standing difficult problems or new products which provide significantly increased benefits to existing solutions, the market will be very receptive.

TIMING

Timing does make a difference

You might put growth down to superb execution but I don't think you can ever get away from just being lucky. Being in the right place at the right time has certainly paid off big time for a lot of entrepreneurs. The same business concept implemented 12 months earlier would not have worked and if they had done it 12 months later, they would have missed the wave. Then again, a lot of people would argue that you can create your own luck – or perhaps it isn't luck then.

I am a great believer in looking for turning points in a market that create growth spurts. If you can see them coming and position yourself to take advantage of them, you can catch the wave. In fact, you may be the only one to see the wave coming. While everyone else is trying to catch up, you are already on your way. So what do you look for?

You might start by looking into your own industry at the events, inventions or changes which stimulated growth. What you will find is that there were breakthrough inventions; those products which dramatically improved performance, ones that substantially reduced cost and those that brought forth a way of solving old problems in remarkably different ways. The companies which brought these to market grew dramatically. Next, look at the changes in business concept. Which companies changed the way in which business was done and moved the goal posts?

Inventions or innovations which provide platforms for many new products and processes create growth for early adopters. This was certainly the case with early entrants into internet e-commerce sites and social networking. But the same trend occurred during the computer hardware boom of the 70s and 80s and the biotech boom at the turn of the 21st century.

Many other firms achieved growth spurts by getting into the market early when regulations changed. New regulations obsolete products, create new and replacement markets and drive purchase decisions because there are penalties for non-compliance. Look at historical trends. Trends such as the aging population, environmental concern, obesity, infrastructure needs and increasing oil prices

create demand for existing and new products over time.

In every industry there are macro trends, micro trends, new regulations, changing consumer tastes, inventions, innovations and new business concepts. In other words, there are lots of things happening and each one will throw up opportunities. You can either be the laggard and wait until it hits you in the face or you can be proactive and look out in the future to project which of these will impact your market and which you can exploit. Growth will be facilitated where you have the capability and capacity to exploit a change where you can develop a sustainable competitive advantage. Don't do what everyone else is doing; that simply leads to competing in a commoditised market and you end up competing on price. Find a niche where you can do something different and special and which attracts customer to you because you have the best solution at that point in time. Now turn that exercise into an ongoing capability within your business.

In other words - "Create your own luck!"

SCALABILITY

You need to build scalability and replication into your operations

It is very difficult in business to drive a sustained high growth rate by doing new things all the time. The vast majority of high growth companies sustain growth by doing more of the same. However, underpinning their ability to drive growth is a very well developed business model built on replication and/or scalability. They achieve high levels of resource productivity by fine tuning their growth around economies of scale and learning curve effects.

There are two fundamental building blocks in the growth process, the ability to repeat a business concept over and over again, similar to a franchise operation, or the capability to generate higher and higher outputs of very standard products through scalable manufacturing or service delivery systems. The key to the former is to have highly standardised and formal processes underpinned by highly developed performance monitoring and setting systems. The key to the latter is the ability to control costs and quality as the output levels increase. Both these aspects of scale are difficult to achieve and maintain which is why few companies are able to achieve high growth rates for more than a few years. At some point, they need to consolidate and reengineer their systems and their structure for the next growth phase.

A business wishing to drive a growth agenda really needs to choose one of these models, although hybrids do exist where scalable manufacturing is coupled with franchise outlets. Scalability, however, does not happen by accident. Whereas short term growth can occur through rapid market demand, the ability to proactively drive long term growth comes from a strategic plan designed to build capacity and capability to service a demand driven market. What is very clear from the stages of growth theories is that a business must adopt quite different business models as it expands. What works at a level of production at 10 units off can go significantly wrong when the volume gets to 1,000 or 10,000. Often fundamental characteristics of the business will change including choice of customer, distribution channel, location of the business, organisation structure and even the internal culture of the business itself.

The proactive growth plan needs to define what the business will look like at different levels of volume. It then works backwards to define those actions the business needs to take to get to each growth stage. By simulating the impact of higher volumes on the business, management can see what decisions need to be taken about funding, recruitment, procurement, manufacturing capacity, supporting infrastructure and so on. Just having demand, or being able to stimulate higher levels of demand, will not be sufficient; the firm has to build the capability and capacity to service that demand. Scalability and replication are the building blocks which enable the firm to meet the projected demand. Understanding how these concepts are translated into action is the key to sustained growth rates.

COMMITMENT

Make sure it is profitable before you commit

When everything is going well and you are exceeding your growth objectives, it is very easy to allow less than marginal business to creep into the pipeline. Instead of rigorously testing new activities or projects against well established criteria, you can be so mesmerised by your success that you take on business that turns out to be sub-optimal, dragging scarce resources away from better projects and activities. So how do you temper your enthusiasm and ensure that the business you do take on is profitable and aligned to your growth objectives?

The containment process starts by setting out who you are, what you do well and where you want to go. The business you sign up today may well have been in the pipeline for several years, most likely stimulated through your earlier marketing efforts. The groundwork was put in place some time ago and you are now reaping the fruits of that earlier work. Your marketing program plants the seeds of the business which turns up at your door months and years later. Control starts with marketing. Without long term planning and a well established articulated focus for the business, it is very difficult to control what business you attract. How you position yourselves in the market, the messages you send out, the partners you work with and the brand building you do all influences how prospects see you and why they come to you.

Your prospecting should start with your long term objectives. This is then translated into the business you want to do to reach those goals. If you know what you are good at, what underpins your competitive advantage and what generates your highest profit margins, you need to turn that into clearly defined characteristics of the business you seek to undertake. If you can clearly define the type of business which leads to profitable outcomes, you should then ensure that your marketing and sales activities, as well as your incentive plans, are clearly aligned with those outcomes.

If your marketing program is successful it will drive the right prospects in your direction. You then need to rigorously filter and screen those to ensure that the ones you spend time and resources on are those that clearly meet your long term growth objectives. Even if you are successful at driving the right prospects

towards you, too often sales activities are spent chasing blue sky prospects or marginally profitable business because inadequate discipline was established around the qualification and sales progression process. The aim should be to qualify hard and then spend more time with those that have a higher chance of success, especially those that drive growth in the direction which is most beneficial to the long term objectives of the business.

Rather than chase 200 prospects, many with only a slim chance of success, try focusing more resources on the 20% which are better aligned to what you do well. You will be surprised at how much easier growth is to achieve and just how much more profitable your business will be.

OVERCOME CONSTRAINTS

You have to understand your constraints to overcome them

Short term growth can easily be the result of good timing and luck but it is hard to achieve sustained growth without some dedicated effort and planning. If you look back over your firm's history you will see times when you grew and times when you went into decline. Almost certainly external events will have played a significant role in both. However, there will also have been times when you could have grown faster or for a longer period but you were unable to because of factors inside your business which imposed constraints to your growth. Identifying and removing growth constraints is a critical part of any growth strategy.

It is what we don't know which is most likely to hurt us most in going for growth. What most people fail to realise is that there are a large number of capacity and capabilities attributes of the business that must be planned and coordinated at some distance in the future in order to facilitate growth. Some of these will have long lead times, such as acquiring new specialised equipment or recruiting and training skilled workers. We simply can't leave many of these decisions to chance. Just think of the level of effort it takes to find and equip out a new office facility or to select and implement a new enterprise application system. Unless you plan for sustained growth, it will be what you don't do which will prevent you from meeting your growth objectives.

You need to start with projecting out the levels of your core activity over the next 3 to 5 years. What activity best represents your growth? It could be revenue, employees, tonnage produced, clients served, systems installed and so on. That core activity level is then translated into all the supporting resources; staff numbers, warehouse space, inventory levels, fleet size and so on. Now start to work backwards and identify what you need to do to develop the levels of capacity and capability to support your core activity volumes. Don't forget to put in reasonable lead times to source equipment, find and train new employees, source funding, develop new warehouse space or office accommodation.

What you will find is that key resources take a long time to acquire and

integrate into your business. You need to periodically take the time to review your long term resource needs so that you can put in place the activities needed to get them in place before their lack becomes a growth constraint. Also remember that you can't predict the future with any accuracy so you need to be sensitive to pulling back or reversing a commitment. Try thinking about different ways in which you can meet a resource constraint which could give you more flexibility in the future. What can you do to bring more capacity on-line or what can you do to layoff capacity. In the end it is your ability to manage these resource boundaries which will determine your capacity to take advantage of growth opportunities when they occur.

STRATEGIC RELATIONSHIPS

Leveraging complementary product relationships

Growing firms never have enough resources to do all the things they want to do so leveraging other people's resources is critical. You need not apologize for riding on another firm's back, in fact, they may be very glad of the association.

What we tend to forget is that customers are very pleased when they can cut down on their search time for solutions or find all their needs at one location. They like to think that the different products and services they buy will actually work together and are very pleased when they can find a supplier who can help ensure they do. So working together with complementary product and service suppliers is often in the best interest of the customer.

In order to take advantage of these types of strategic relationships, you need to first understand the problems your target customer is trying to solve. What other services or products do they need to arrive at a complete solution? Who is supplying those other services or products and would it make sense for you to partner with them? What benefits do you bring to the partnership which will help convince the prospective partner to work with you?

There are considerable economies of scale in working together on joint bids, joint customer presentations and cooperative marketing programs. If it is a large corporation you are partnering with, you will be able to take advantage of their lead generation program, the spread of their advertising spend and the number of salespersons they have in the field. They may be able to do a lot of the prospect screening for you, only bringing you in when they have a qualified prospect. You may be able to take advantage of their office networks to host meetings and presentations or have them set up local contacts for you before you arrive in town. Don't forget that you may also be taking them into deals which they otherwise wouldn't be able to compete on – it shouldn't be a one way relationship.

Once you have found the right partner, don't leave the relationship to chance. Make sure there are clear expectations on what is required by each partner to make the relationship work. Put the time and effort into working with your contacts to make sure they see you supporting their efforts and thus include you in their long term plans. At the same time, ensure that you are being fairly compensated with

the outcomes. If you are not seeing a positive result from working together, the relationship will not survive.

Working with larger companies in a partnership where each party benefits from the joint marketing and sales efforts of each greatly enhances the reach of the smaller business. However, you need to be careful who you partner with. Do your homework on their existing and prior relationships to make sure they respect the boundaries and work to make the relationship work.

CREATIVE PLANNING

Don't let hope be your strategy

If you don't know where you are going, then surely wherever you get to is your intended destination. I call this the 'hope' strategy, basically, lets see what happens and then react to whatever turns up. While this may seem to be an extreme position, it is amazing how many businesses do not have plans for where they want to be. Most often, whatever planning is done, simply extrapolates past trends, adjusts for a few current factors and then projects where the business is likely to be in 12 months or 2 years. This is hardly what I would call proactive planning and the business owner should not be surprised when they simply end up where they are right now in 12 months time. While planning by itself does not change destiny, creative planning it is a great place to start.

The objective of a planning process should be to reduce the uncertainties of reaching a desired end goal. However, much can be learned during the planning process about the assumptions we make, the constraints to our business, the anticipated reaction of competitors and the possibilities of doing some things differently. Instead of treating planning as a boring and tedious task, think of it as a creative exploration of the possible. What can you learn about your business by testing out different ideas, changing assumptions and testing out orthodoxies?

You should think of planning as an iterative tool. It can be used to play out various scenarios to see what is possible and probable. While it is very common to start with where you want to get to and work backwards to uncover what you need to do, try doing the reverse. Try going forwards from where you are and explore various strategies to see what might evolve. Now try being a little creative.

One of the best planning exercises I have seen in practice is the challenge to 'the way things are done'. Bring your senior staff together and ask them to question every aspect of the way in which they do business. Ask the 'why' question about the way in which you drive your business. Allow some free thinking and some off-the-wall suggestions. More often than not, an insight emerges into a different product or service or a different way of creating value for customers. Take those new ideas and put them through a planning process to ascertain the impact on

your business.

They say that entrepreneurs are different from other people because they see connections between ways and means that other people don't. This different view of the world generates innovations in products, process and business concepts. However, often such creativity needs an audience and often the best ideas are combinations of thoughts from different people. In your planning process, not only should you be considering where you want to be and how to get there, but you should be trying to discover new ways in which you can create customer value and generate higher competitive advantage. A well thought out planning process can be used to do both.

FINANCE

Do you have a funding plan in place to finance growth

High growth firms consume cash faster than the businesses can generate it. While they might be able to generate increasing sales, that in itself does not mean that cash will flow in the door at the same time or that it will be sufficient to provide the infrastructure which underpins the increasing levels of activity. It is not just work in progress which has to be financed, there are large investments in accommodation, new employees, logistics capabilities and information systems to be funded. Without an increasing source of finance, high growth companies run out of cash and hit a wall.

You would think that being successful in generating ever higher levels of sales would be a recipe for success but, in fact, it brings its own challenges. You are constantly on the search for new staff, you run out of office space and warehouse capacity and your telephone system will have insufficient capacity to cater for all the new people. At the same time, you need to increase inventories, develop new channels to market and spend more on logistics. If you are very lucky and have high margins and a mostly cash sales business, you might just be able to find enough cash to fuel the engine, but few companies are that fortunate. Most firms have some level of credit sales and their margins are not high enough to provide the buffer to fund high levels of growth.

Financing growth becomes critical once the rate of growth exceeds about 10% pa. From this point on, the business needs to constantly invest in capabilities and capacity to support the increasing sales. The growth of the business needs to be modelling so that cash needs can be ascertained and financing options explored. Some businesses will be able to use debtor, inventory and property assets as security to secure additional funds but services based businesses will have difficulty. Almost without exception, those firms selling products and services with intangible benefits are going to have to use equity financing. In some cases they might be fortunate to be able to access angel or venture capital financing but they will be in a very small minority. Others will need to find private investors among their family and friends or seek a listing on an exchange, perhaps one of

the secondary listing boards.

Securing finance is, however, not an easy or quick exercise. A highly attractive venture might be able to resolve their needs in a few months but the average business is going to spend 6 months to 18 months on the exercise. Any type of public listing is a giant undertaking which demands considerable senior executive time and, often, significant changes to internal governance and reporting systems. Even bank finance has its challenges when the lender requires additional protection through performance guarantees and more extensive reporting requirements.

Basically without solving the financing needs, high growth over any extended period is simply not possible for the vast majority of firms. The financing needs have to be treated seriously and be given priority if growth is to be supported.

REPLICATION

Replication may be the quickest path to growth

Have you ever wondered what high growth firms do differently which allows them to achieve their growth rates. Some do it by acquisitions, others do it by rapidly scaling their operations and some do it through replication. Each path has its own challenges and is not for everyone but we can learn from the techniques they use and perhaps use some of what we learn to drive additional growth in our own business.

Replication is perhaps the easiest of these strategies to apply and can be applied in many different functions within a business. Whether it is having several people undertake the same task, multiple salespeople working different territories or duplicating the business in another geography, the principal is the same. From a growth perspective what we need to focus on is doing more of what we do well. That is, instead of growth by diversification we should look to growth by replication.

If we are fortunate to have carved out a niche market which gives us a sustainable competitive advantage and produces very profitable results, we should seek to capitalise on that advantage. Too many business grow by taking on more products, different problems or new markets without appreciating the benefits which flow from a tight market focus and the learning curve advantages which come with that. In addition, every new facet which is embarked upon brings new risks.

Franchising is the ultimate example of replication. The business model of the local franchise is repeated over and over again. The internal systems are fine tuned and standardised so that quality is assured. A number of functions, such as marketing, training and site selection, are done centrally to gain economies of scale. However, only certain types of products and services lend themselves to a franchising model. But the concepts associated with standardisation can be applied to any business replication.

We sometimes forget that a winning combination can be applied overseas. If you have managed to carve out a niche market in your own geography, the

same problems and types of customers are likely to exist in many other places in the world. Rather than take on something new in your current location, why not simply do what you do very well somewhere else. If you have a strong competitive advantage in your home territory, chances are the same advantages will exist in other locations. Take the time to review different markets to see if the same competitive advantage will apply. Even if you work through distributors or agents, the product or services advantages may still work for you. You can then expand using other peoples' money!

If you want to drive growth, you need to find paths which have the least resistance. There are a lot of strategies you can use but you should stick to the ones which have the highest probability of working for you. Some firms are very successful at acquisitions, although most seem to fail at this activity. Others are very good at growing by building a wide product portfolio but this usually works only if they have a large customer base. Most businesses are better at working out what they do best and doing more of it. It doesn't sound very creative but it does work.

ECONOMIES OF SCALE

Take advantage of economies of scale

We should never forget the basic components of competitive advantage. Each time I present on the basics, someone always reminds me that tried and proven methods of capturing a competitive advantage need to be periodically revisited and re-evaluated. Our businesses are changing all the time and our product/market environment is forever changing with new products and new competition. Taking another look at what we are doing thus makes common sense. This is certainly the case with the advantages of economies of scale.

At a simplistic level, economies of scale simply mean that the cost per item or per transaction is reduced as volumes increase. The lowering of costs comes from the fact that fixed costs are spread over larger volumes, thus decreasing the fixed cost component of each item or transaction. You can see this easily in quantity price discounts but don't forget the overhead of running the purchasing department which is then spread over a larger number of procurements. At the same time, some service costs and advisory costs will be relatively fixed over a wide range of output volumes. So, for example, a quality inspector might be able to cover a range of output volumes up to 10,000 units, but the next 1,000 units will require a second inspector. A marketing program might cost \$1 million but be the same cost for all the companies in the sector irrespective of their size. Clearly the larger ones are getting the benefits at much lower cost per unit of output.

Don't just think of this as large company benefits, the principal can apply to any fixed or semi fixed cost activity which you engage in. As you examine each of your costs, ask yourself whether you could create higher volumes of the underlying transactions through extending your distribution channel or account penetration. Perhaps by offering some quantity price discounts to your own customers, you could generate higher volumes. Maybe you could find some agents or distributors to take some part of your output so that you could reach higher volumes.

Maybe you don't have to go it alone. Are there cost elements which you could buy in partnership with other businesses in your sector or region. There is no reason why you could not have different partnership groupings for different parts

of your purchases. A local chamber of commerce might assist by bringing local firms together to negotiate utilities or telecommunications. You might link up with competitors to buy in basic ingredients or components. Or could you might arrange a buying group to place advertising in selected trade magazines.

The underlying driver of negotiating power in the size of the order, it doesn't matter whether you do it alone or in combination with other firms. What you do need, however, is competition at the supply end so that you can get the competing suppliers bidding for the business. What you gain are the procurement benefits of the large companies without being large yourself. Simply, another way of harnessing the basic components of competitive advantage.

BUILD IT

Build it and they will come

Perhaps the most misleading saying we have in business is ‘build it and they will come’. Many start-up entrepreneurs are so consumed with their product that they forget that they actually need to go out and find customers to buy it. It is a rare product that can establish such a compelling benefit that customers will seek it out. The vast majority of businesses need to develop robust marketing and sales processes to educate, persuade and encourage the customer to buy.

The phrase is a modern day adaptation of a statement attributed to Ralph Waldo Emerson (1803-1882), whose original profession and calling was as a Unitarian minister who left the ministry to pursue a career in writing and public speaking. Emerson became one of America’s best known and best loved 19th century figures. The original statement was:

“If a man write a better book, preach a better sermon, or make a better mouse-trap than his neighbour, tho’ he build his house in the woods, the world will make a beaten path to his door.”

Regrettably this view of business has become ingrained in our thinking. Even our policy makers seem to think that by throwing vast sums of money at the hard sciences in the form of research and development grants that somehow we can create the next global venture. However our research on commercialization shows us that for every dollar spent on R&D we need seven dollars to bring it to market. Few scientists have the knowledge, experience and motivation to build the marketing, logistics and production capability to take a product to market.

The failure to put in place a plan to reach the customer is present in many small businesses. Take a walk down your local high street and note the number of shops that are closing or look at the failure rates for craft and consultancy based firms. Many people who are very successful at a functional task think that they can start their own business simply because they are good at what they do. What they neglect or fail to appreciate is that running a successful business is much more about going out into the market and proactively finding the right customer. Putting up a sign, ‘hanging out the shingle’ or setting up a website is managing a business by hope. That is, we hope someone will come and buy from us because

we are such nice people and have such great products. The smart entrepreneurs go out and pursue the clearly identifiable and reachable customers.

The ideal customer is one that you can clearly define and, in the best situation, access a name and address and then have the opportunity of presenting your product or service. It is far more effective to target a list of customers where you can seek them out; thus a list of professional practices, a subscriber list, a membership register or a list of prior customers for a complimentary product, provides you with a tightly defined target. Instead of waiting for them to come to you, you can set out a marketing program using tele-marketing, direct sales calls, targeted advertising or cross selling opportunities to address your prospective buyer.

Many budding entrepreneurs talk about targeting the 15 to 35 age group or the time poor executives. The problem with such sweeping profiles is that you are effectively using a scatter gun approach to market your products. You need to narrow down the focus to a set of prospects that would really appreciate your offering.

Fancy websites don't sell anything by themselves. You have to drive prospects to the site before they can appreciate what you are offering them. Optimising the search engines is a specialised field and you may need help to correctly configure your search attributes. However conventional marketing through targeted advertising, public relations, direct mail and marketing collateral is needed to support the site.

Associate Professor Stewart Adam of the Faculty of Business and Law at Deakin University has audited the websites of many of Australia's leading companies as part of his on-going research. I asked Stewart to tell me how a good website is positioned within a marketing strategy. "The best sites are well supported by an extensive integrated marketing campaign. A good website can inform, generate sales and provide customer support but customers need to be told about it through conventional marketing. Websites are like brands and to build brand equity it is necessary to communicate with household consumers in traditional media and with business and government customers using a sales force. Moreover, many organisations make the mistake of seeing their website as a one-way communication tool when the reality is that the Web has a three-fold marketing role – communication, marketing logistics and importantly in developing and maintaining wanted relationships with customers."

Great products and services solve a compelling need. However without the processes that inform the target customers and provide the opportunity for the prospect to validate the benefits, few such products will create a sustainable profitable business. Take the time to identify the right customers and then work out how you can get in front of them. Don't let your great product waste on the shelf by not being proactive about the marketing and selling activities.

PART TWO: MARKETING

“The growth potential of the firm is determined at the product/market interface. It is the rate at which revenue can be generated for each unit of sales and marketing effort which ultimately determines the rate of growth. Thus products which resolve serious problems and have little competition are generally found in high growth firms.”

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TRANSACTION VELOCITY

Growth is all about transaction velocity

In its crudest form, growth is simply growing revenue. Providing you maintain your gross margin, the more transactions you do, the more profit you make. But the smart companies work on several dimensions of growth at the same time. They want to increase their gross margin either by increasing their price and/or by decreasing costs. Increasing productivity of their sales effort by increasing prospect conversion rates and decreasing sales lead times also impacts the profitability. But the most effective strategy comes from focusing on a characteristic which incorporates many of these elements: transaction velocity.

Given a finite resource to devote to the sales effort, the high growth business directs its efforts to decreasing the time taken to close the sale. Every sale has a number of steps which the customer goes through before they actually hand over the cash. These stages of sale conversion each consume resources, but more especially consume time. If you decrease the resources used throughout the process, you can support more transactions. If you then reduce the overall time taken for a transaction to convert from interest to sale, you bring in revenue quicker, accumulate profit faster and thus grow quicker. So by focusing on the resources and time taken for each step in the sale process and optimizing each one in a systematic way is a systematic way in which growth can be proactively driven.

Many transactions require the customer to undertake many steps to get to the point of purchase. For example they might search for a product or service, gain an appreciation of competitive product and service offerings, evaluate the differences, identify points of supply, get references, perhaps try the product out, go through the purchase and take delivery. Thus, there are many steps in this process which can be improved. Your objective should be to make this as easy as possible but to move them as quickly as you can to purchase decision point. For example, an information dissemination system which enables potential buyers to decide not to buy, might allow greater resources to be devoted to the better qualified leads. You need to work out where to put resources into each step of the process that gains you the highest productivity of conversion.

Comparative marketing research has shown that high growth firms have

higher referral levels, higher account penetration and lower marketing costs per unit of sale. They put more effort into satisfying their existing customers in order to cross-sell more products, increase the rate of usage of products and provide a solid base for referrals. They know that prospect fear about making the wrong decision is the biggest impediment to closing a sale. By having their existing customer willingly refer them to others, take part in case studies and conference articles, they can substantially reduce this obstacle in the purchase decision. They thus spend much less on getting a sale and reduce the time from interest to purchase.

Break you own customer purchase decision down into the many steps the customer goes through to make a decision and then put the effort in to improve the productivity and reduce the time of each step. The end result will be to increase transaction velocity – the key to growth.

COMPELLING NEED

You need a compelling need to buy

The greatest hurdle in business is to extract the money out of the customer's pockets. It is not sufficient to have a great product, lots of energy and passion for your business and do lots of marketing to reach your target audience. In the end, you have to push them over the line to make that purchase decision. What you have to avoid is a situation where they can delay or avoid making the purchase. Thus all your effort to get in front of the right customer can be frustrated if you don't have a 'compelling need to buy'.

You can use up lots of company resources spinning your wheels chasing business. Your conversion rate will depend on your ability to get to the right customer, your competitive advantage and the degree to which they recognize that they need your product or service. If can't find a way to increase your need solution, you will end up with long lead times, low conversion rates and be driven to discount your price to push customers over the line.

So how do we improve our compelling need to buy position.

Start with need not desire. What does you customer need to do – not like to do? What problem do they have which would drive them to look for a solution rather than wait for you to present yourself? The key to a compelling need is to satisfy one of the following problems: your product or service resolves a serious physical or psychological pain, saves a life, protects a reputation, if that is important, prevents or mitigates or reduces penalties and risks associated with compliance requirements and keeps the customer out of jail.

The reason why pharmaceutical companies and biotech companies do so well is that they satisfy one of more of these conditions. They have little price pressure, very short lead times and have customers coming to them for solutions. Companies providing audit services or tools to meet compliance requirements don't have to convince their customers to buy. You don't buy, you go to jail.

Peer group pressure associated with brands and designer labels are a form of psychological need. Thus celebrity endorsement is used by companies to increase

psychological need.

Most of us in business are not so lucky. We have very ordinary products selling to very ordinary customers. However, you need to examine your product line and your customer needs and reposition your business around higher needs. What problems could you solve which are more urgent and have higher compelling needs? Lead the sales effort with products which satisfy compliance needs and then cross-sell the complementary products in the follow up. Create uncertainty, fear and doubt around problems which increase psychological need. Look for products to distribute which can act as door openers because they have shorter lead time and higher closure rates. Once you have a customer relationship it is much easier to sell in other products and services.

There are many things you can do to facilitate growth but solving the compelling need to buy will have a greater impact than any other improvement you might undertake.

RIGHT CUSTOMER

Targeting the right customer is the key to high growth

Your conversion rate of closing sales from prospects is one of the strongest indicators of marketing and sales success. Every lead generated will cost you something, whether it is cost per direct mail piece, a telesales call or an advertisement. You need to measure the cost of getting the lead and then the cost of converting it to a sale. Too often, companies spend too much getting in front of people who have no interest in buying instead of working out how to get in front of the prospects who have the highest need for the product or service. The more you can define your target customers and direct your marketing and sale effort to concentrate in that area, the higher your conversion rate will be and the more productive your marketing and sales spend.

The biggest failure of most marketing programs is that they stimulate interest by being reactive. That is, they put information out there but wait until the prospect notices it and contacts the supplier. The high growth company does it very differently. They have a very well defined target customer and use highly directed marketing programs to proactively get in front of the customer with the problem or need they can solve. They typically work off prospect name and address lists so that they can be very targeted with their marketing spend. They go after 100 prospects and close 50 rather than 1,000 and close 10.

This marketing strategy is often referred to as the identified and reachable customer. That is, my ideal situation is to have a list of name and addresses of my target prospects and have a means of getting to them directly to put my proposition. Thus selling to members of a profession, CEO's of listed companies, school headmasters, accredited members of a trade or residents in a selected apartment tower are all highly specific programs. However, you need to find a match between your product or service solution and your target customer. Sometimes you will end up changing one or both in order to improve your positioning.

Where you have an existing product or service, go back to basics and ask yourself which customer group has the highest need for it. Now take the time to focus in on better methods of getting directly to that group alone. Do they have a

special place they shop, meet or specific journals they read? Are they members of an association, club or business program? Who else sells to them that has better access to them than you? Can you partner with the other provider to gain access?

If you can better define your target customer and improve your 'fit', you can also often increase your price and decrease your marketing spend. High growth companies devote additional resources to their target customers to increase account penetration and referral sales. They typically spend much less on marketing as a result compared to low growth companies. However, referral selling does not work across many different products into many different customer types. The prospect needs to look the same and have the same need in order to respond positively to a referral. Thus, having a well focused target customer definition helps increase referral selling which in turn decreases lead times.

Have a go at refining your product/customer fit. You will be surprised at how much this improves your focus and ultimately your growth.

CAPACITY

You need to have adequate capacity in your channels to market

One of the biggest challenges for the high growth firm is to capture sufficient capacity in their channels to market to enable them to keep pace with their demand. It is not sufficient to have a great product, to solve an urgent problem and to have the funds to support the growth plans, you also need to have a way of getting the product in front of your potential customers. What we often forget is that, most high volume product companies use independent channels to market and they have to negotiate access and capacity within those channels.

It is a well know fact that in most western countries, large regional or national supermarket corporations control access to a significant percentage of the market. The same degree of concentration can be seen across a number of consumer product categories. The one stop shop vertical retail chains in toys, DIY, shoes and electronics are good examples of controlled market access. Thus the challenge for the high growth firm is to gain sufficient access and capacity in these restricted channels to satisfy their growth objectives. Failure to do will constrain their growth rates.

Access is not automatic. The late entrant into a commodities market is always going to have trouble unseating an incumbent supplier. The single product supplier will have problems replacing a supplier with a wide portfolio of complementary products. Large companies prefer to buy a broad category of products from a few large suppliers rather than deal with a large number of specialists. So how does the high growth specialist smaller business get past this barrier to growth?

One obvious answer is to have the best product in a class. Thus the product which has consumer pull because it is the best fit for solving a specific problem can be a stand alone item in a mass channel, especially if it can establish a premium price and offer higher margins to the retailer or distributor. The smaller firm can also find a wholesale channel which can bring together a wider portfolio of products from multiple suppliers in order to package up a broad range of

complementary products for sale into the higher volume channels. Of course, the firm can always sell direct either through a direct sale force, internet sales or through a network of agents or distributors.

Each type of channel has its own challenges and the choice will depend on the price of the product, the potential margins available to provide incentives to channel partners, the degree to which highly targeted marketing can be used and the ability of the supplier to properly support marketing, sales and pre and post sales support activities. Some products better suit specific channels, although by changing the focus of the solution, the target customer and the price level, the product or service can be switched into a different channel.

Too often entrepreneurs bring products to market without fully considering the channel access they need and end up being frustrated in their attempts to grow. By carefully planning the product/market mix around the choice of market channel, such problems can be identified well in advance and changes made in the strategy of the business to ensure that channel capacity does not become a barrier to growth.

INNOVATION

Innovation drives growth

If you are producing the same product or service as everyone else you are destined to end up in a commodity market competing around promotions and price. Unless you happen to have the benefit of economies of scale or preferential access to low cost components or ingredients, your profits are always going to be marginal and growth is going to elude you. Only by moving away from commodity marketing and building a sustainable competitive advantage can you start to push your price and margins up. In the end, you need to be a market leader in a highly targeted market with a product which solves a compelling need to provide the fuel for growth. This is where innovation plays a big role.

Innovation, in its most basic form, is simply bringing something new to a market situation. It is more than invention, although many products brought to market are based on new knowledge. Innovation changes a market situation by upsetting the established order, by finding new ways to solve old problems, better ways to solve an existing problem or new ways to bring established products into the market. Innovation can be through product features and design, new processes or new business concepts.

The advantage to the business which uses innovation to change its market position is that it gets to lead the market in some dimension which plays well to a segment of the market who desire that differentiation. By tapping into an unmet need it can establish a higher price, higher margin and capture market share. Providing this is done in a sustainable manner, such as through some form of protection, that new market share can be held for some period of time. Thus copyright, patents, brands, trademarks and licenses are strong forms of innovation protection. Other methods such as loyalty schemes, long term preferred supplier contracts, embedded operations and control over channels to market can also form barriers to competition.

Innovation, however, needs to be directed towards solving a specific problem in the market which can create this leading position. The aim should be to target

innovation around problems which can form longer term barriers. A focus on difficult to solve problems, problems which have a sense of urgency about them or are associated with meeting compliance requirements, will always drive higher market growth. Incremental innovation which simply keeps pace with the competition will not drive growth in its own right. Although it is very tempting to see innovation as a logical extension of existing product specification, it only protects what has already been achieved but it doesn't capture market share from competitors or gain a greater share of a growing market. So while all innovation has an impact, it is the bold innovator who will change the game.

Smaller companies are better suited to differentiated niche markets where specialized solutions can give them a protected market, but also allow them to set higher prices. In this context, innovation driven through customer feedback, internal research and development and market scanning, can bring forth periodic improvement in products and services to keep them in a leadership position.

What is very clear is that without innovation, a leadership position will never be established nor maintained.

SUSTAINABLE COMPETITIVE ADVANTAGE

Growth overtime requires a sustainable competitive advantage

While it may seem that I am preaching to the converted, we often forget just how important competitive advantage is and how critical it is to sustain this over time to achieve growth momentum. Unless you want to exist in a stagnate state where you are frustrated in your attempts to gain market traction and you face a future of slow death, you need to find some dimension in your product or service offering which has greater appeal to a segment of the market than your competitors. In the end, competitive advantage is the only game in town.

However, you need to be careful not to become mesmerised by a single dimension of competition. Too often suppliers focus on product or service specification without taking into account that customers value many more aspects of product or service experience than simply solving the targeted problem. By taking a holistic approach to the customer's needs, other dimensions of value can be tapped into and the commodity supplier can move to a differentiated higher margin offering. Markets are simply not homogeneous. When you break the buying and usage process down into stages and impact, you can choose parts of the product and service delivery where you can make a difference and move away from your competitors, even with a commoditised product or service. Thus providing outstanding information for product evaluation, better availability, a more interesting shopping or usage environment, easier payment terms, better packaging, environmental support, easier upgrades or maintenance or lower risk in usage are simply other dimensions of the customer experience, to name just a few.

Some suppliers establish competitive advantage through strong intellectual property protection while others focus on deep expertise to make a difference. But there is nothing stopping any supplier from spending time with their targeted customers finding out how they can improve their value proposition and where

they can make a difference compared to competing products. A competitive difference should be driven by supplier creativity and market evidence. The aim should be to discover areas of need which are unmet by competitors and to bring forward products and services which tap into that market gap. Only by moving away from competitors and meeting a different need can the supplier improve their price position and margin.

The next challenge is to put this on a sustainable basis. Clearly the regulated IP protection afforded by patents, trademarks, copyright and licenses help but the supplier should look beyond these to other forms of protection. Customer entanglement, loyalty schemes, long term service contracts, control over distribution channels and supplier inputs can all help shore up a longer term position. The supplier then needs to build an internal process of continuous renewal of competitive advantage and sustainability. Any competitive advantage at a single point in time will ultimately be eroded by new inventions, new entrants and expired IP rights. The smart business builds innovation and the creation of new customer value into their DNA so that competitive advantage can be sustained.

HIGHER MARGINS

Higher margins drive growth, profitability and resilience

If you have a choice, go for a premium position in your marketplace. I am not referring to your ego but to a basic business philosophy which says that it is easier to survive, grow and be profitable if you have higher margins. Higher margins give you room to react, attack and innovate. Not only can you compete more aggressively when you have to, but the extra margin allows you to invest to more aggressively build competitive advantage.

Nice idea, but how do you engineer yourself in such a position? When we examine the nature of competitive advantage we can see that the firms with the highest margins typically have built strong intellectual capital or intellectual property around complex problems in tightly defined niche markets. Leaving aside the competitive advantage which comes from a leadership position in a large market built on economies of scale, most SMEs have to dig deep into a well defined niche market to create a defensible position. Almost without exception, the business which achieves high margins without the protection of intellectual property will have build a deep expertise around solving a complex problem. This then gives us a pointer to where we need to grow our business.

Simply put, it takes a long time to build expert knowledge and to create a business capable of delivering products and services around it. This creates a significant barrier to entry. Thus a business which proactively concentrates its efforts over time to gain expertise in a specific area, especially one that has nasty complex problems, that directs its marketing to attract business in that area and which builds a reputation as being the best in its class, will be able to leverage up its prices and thus its margins. Large companies get trapped by their need to standardise their offerings over large markets and to deskill their service delivery thus they need to stay away from smaller niche markets that require expert knowledge. This give the smaller firm an opening to build a defensible

high margin position.

Higher margins have other benefits than just generating profits. Better margins allow you room to make mistakes and be able to afford to correct them to protect your reputation. You can use your margins to fend off competition. High margins in expert situations are often due to much higher productivity in solving customer problems. With lower costs, the high margin business can still be making a profit at prices where their competitors are losing money. If you then use your extra profit to invest in innovation, the competitive advantage can be increased. Being the best will allow you to attract the best staff, reinforcing your leadership position.

You can often grow revenue simply by decreasing prices and cutting margins but it is a path littered with business failures. Small problems become major stumbling blocks as there is no depth in the business to survive and recover. If you can, move your business into higher margin business, even at smaller revenue numbers. The end result will be a business that is much better positioned to take advantage of growth opportunities.

REGULATIONS

Take advantage of changes in regulations

If the only certain things in life are death and taxes then perhaps we can learn something useful from them in regard to how we stimulate growth. Both are uncomfortable and both are to be avoided or delayed whenever possible. The interesting question would be – what would a customer pay to avoid or delay those situations? The answer lies in what is termed the ‘compelling need’. Generally speaking, customers are not price sensitive when it comes to their health or avoiding or reducing severe penalties associated with compliance regulations, like taxes. Knowing that, we can use this to our advantage when seeking new revenue opportunities.

If you are not in the health business, then try spending some time looking at the regulations that govern your target customer sector. What you are seeking are emerging or recent regulations which mandate conduct where the penalty for non-compliance is severe, perhaps large fines or even business closure. You also want a situation where there is a limited supply of acceptable solutions and where you could build a competitive advantage by being early to market and by building on some existing product or service. These are highly fertile grounds for growth opportunities.

The nature of regulations is that they impose an obligation on an individual or a business. If the individual or business fails to comply they suffer personal or business setbacks, fines, closure, disruption, loss of reputation and so on. Compliance situations are often time critical. That is, they cannot be delayed beyond a limited point. The price individuals and businesses are willing to pay to comply is directly related to the size of the penalty or cost to the business of the associated closure or disruption.

What you need to look for are situations where the cost of not complying is high, the available solutions are not able to meet demand and where you have the capacity and capability to bring a solution to market in a timely manner. Even if you have a weak competitive situation, the excess demand will still allow profitable business to be achieved. Clearly, if the solution can be underpinned by strong intellectual property or capital, the horizon for generating profitable business will be extended.

Where you have a range of products and/or services targeting a sector, you might try to introduce compliance products or services which act as door-openers. You can reduce your sales lead time with a compliance product. Close the sale on that item and then use the now established customer relationship to sell complementary products and services. Even where the door-opener item is of relatively low value, this still allows you to cross sell higher priced products and services later. As we all know, it is much easier to sell to an existing customer than to find a new one.

Even where you have a well established business, introducing compliance based products and services will shorten sales cycles and increase account stickiness.

POTENTIAL CUSTOMERS

Do you have lists of potential customers

I suppose the best customers are ones who come to you because you have the only game in town. I would wish to be so lucky, however, most of us have to go out and drag them through the door. That being the case, what we need to put in place is a system which ensures that our marketing and sales efforts are as productive as we can make them. Targeting the right prospects and using some hard rules to qualify them is critical if you are to drive a growth agenda.

I have seen far too many companies spread the net too widely on prospecting. Instead of taking a rifle to the problem they use a shotgun. Instead of throwing up a small number of prospects with a high probability of conversion to good business they generate lots of noise which takes an undue level of effort to refine. Instead of spending valuable resources on the best prospects, they waste resources chasing business which is marginal, unprofitable or where they have a suboptimal competitive position.

I have found that few businesses really understand what they are very good at and even fewer translate this into an ideal customer profile. You need to ask the questions – what do I do which creates my highest competitive advantage – what generates the highest margins and what deals do I close in the shortest lead time? The answers should lead you to a definition of your best customers. Next, you need to review your marketing plans to see if you are correctly targeting that select group.

I have seen prospect lists of 2000 where only 100 really fitted the ideal attributes. But when you find out that they only need 5 or 6 a year to meet their growth targets, you start to wonder whether any planning went into mapping the marketing onto the rest of the business. Even if the prospecting system threw up 2000 leads, the qualification process should have excluded 1,900 very quickly allowing the business to devote its scarce resources to the best prospects.

When you do produce a tight definition of the ideal customer, you should investigate whether you can find a method of generating a target list of prospects so that you can be proactive in going to them rather than waiting for them to hear about you. Remember ‘birds of a feather flock together’, so often there is an

existing forum to which your target customer belongs. This could be an industry association, a club, a journal subscription or a professional group. Sometimes you can simply acquire a list. With the list in hand, you can be proactive on putting your message in front of your target customer. Often this can be done at a fraction of the cost of a more traditional broad advertising or marketing campaign.

Growth is highly associated with deep expertise and a focused market. The more you do something and the better you get, the greater the competitive advantage you build, the more you can price at a premium and the more productive in delivering solutions you get. This all underpins your ability to drive growth.

CHANNEL CAPACITY

Plan for growth in capacity in your distribution channels

A high growth business is a bit like a finely tuned performance car, all the parts have to work together seamlessly for the driver to get the best out of it. But what if the available roads were narrow, poorly maintained and of limited length. Just think how frustrated you would be to have purchased the best car available only to have no where to take it. This is a bit like a growth business which has the capability and capacity to fuel sustained growth but is lacking the distribution channels to get its product to market. Planning for capacity in your outbound channels is just as important as fine-tuning the internals of the business.

You will undoubtedly experience a lot of impediments to growth if your planning system does not take into account the anticipated levels of activity at different stages in the growth curve. In the case of distribution channels, not all channels are equal. They vary in capacity, throughout and destination. Thus a wholesale agent arrangement might work for a while but may not have sufficient market reach to service your growing business. A direct sales approach might be effective for high end customers but is inappropriate for higher volume low priced products. A knowledgeable and skilled sales force might be fine but what if you can't recruit enough suitable candidates.

What you need to do in any growth business is to simulate the business under different conditions and varying levels of activity. Once you have determined the level of business which is destined for a specific channel, you need to validate that the channel has the capacity and capability to handle the volumes at the price points and quality levels which will meet your growth objectives. What will become apparent is that few channels are without constraints and most are not capable of handling ever increasing volumes. When this is discovered during the planning cycle there is time to identify and test out alternatives.

What you do have to be careful with is channel conflict. This occurs when two different channels reach out to the same customer. When that occurs, both channels can expend effort on gaining the business but only one can be successful. This problem is exasperated when the customer uses the resources of one channel,

say a retail shop, to review the product but then goes to a cheaper channel, such as the internet, to buy it. In some sense you end up competing with yourself to your disadvantage. However, multiple channels can work very successfully if they reach different customer segments with little or no overlap. The advantage of a multi-channel strategy is that it gives you greater room to develop capacity for taking products to market, some channels being more open to growth than others.

In the end you have to find a balance between channel capacity, your own growth targets and what you have the internal capability and capacity to manage.

LEAD GENERATION

Lead generation is the name of the game in many industries

If you don't connect, you can't convert! High value product businesses are a numbers game, if you don't pull the numbers through the door, you don't get the sales. Thus generating leads is critical and yet many firms don't have a systematic way of generating leads and progressing them through to signed agreements. At the same time, many firms generate huge numbers of leads but find that most are useless. The key to this type of business is to generate the right type and number of quality leads and then have a very systematic process for qualifying and converting them.

Many businesses simply fail to work out who their ideal prospect is. They go at the market with a shotgun hoping that random shots will hit someone who might be interested. The better approach is to have a well articulated definition of the ideal prospect, identify how best to connect to them and then design a marketing program that has a high hit rate. In some cases direct contact with specifically named individuals will work. At other times, the right candidate is found on an industry exhibition floor. Some are best gained through subscription lists. The lead generating program should be like a rifle not a shotgun.

Progressing leads is often referred as a funnel which leads to a pipeline, very wide at the top and narrow at the bottom where the best prospects are converted to signed agreements. However, few firms strongly qualify at the top of the funnel to get rid of the less desirable or time-wasting prospects. The quicker you can reduce your prospect list to those that have a high probability of conversion, the more productive your sales resources will be. Next, you need a systematic way of progressing prospects through the evaluation process. My last business had a 17 stage pipeline process. Stages indicated where we were on the qualification and progression path. Once qualified, they would go through phone call, visit, demonstration, proposal, reference visits, contract negotiation and so on. At each stage we would set up the action for the next stage. At each point in the process

we knew approximately how long it would take to achieve a contract and what the probability of closing the deal was. This allowed us to predict orders and future workload. It also told us if we were generating enough unqualified leads into the top of the funnel to meet our sales targets.

Lead generation, prospect qualification and pipeline processing is more than a guessing game, it is a highly systematic process for generating sales. Any business in the high value product sector should be investing in systems, processes and skills training to ensure that this part of their business is working at the highest level of productivity. In the end, it is sales which keeps the business going and is at the heart of growth creation. It simply should not be left to the whim or personality of the salesperson or to the randomness of customer interest.

DISTRIBUTOR COMMITMENT

How do you get the commitment of your independent distributors

We all know that there is no such thing as a free lunch and yet many firms see distributors as such. They seem to think that they can take advantage of the resources of another firm to market and sell their products at no cost to them. Such an attitude is not dissimilar to the head in the sand approach to building the world's best mousetrap where customers will 'beat a path to your door'. What is missing is the fundamental maxim – we win when you win.

When you engage a distributor to handle your products, you are seeking to extend your reach into the market by utilizing their resources, channels and networks. You are seek to ride on their back taking advantage of what they have already achieved to leverage yourself into the market. It is they and not you who have taken the risks to set up in business, to develop their own small piece of the market and to put together a working team of employees. Now you want to come along and ask them to take additional risks to take your product to their market – so, what's in it for them and why should they do it?

Too often we think that we have the best mousetrap and others should be only too willing to throw their lot in with us. Instead, we should be looking at this opportunity from their point of view and be willing to recognize the risks which they see in the venture. Once we see things from their perspective, we can do a much better job of putting together a compelling business case for a partnership.

Empathy with the potential distributor is 80% of getting a distribution deal signed and working. When we put ourselves into their situation and are able to provide the level of support, training and co-investment to help them achieve their objectives, we are a long way to achieving our own. We need to acknowledge that they are an independent business with their own set of issues to deal with and their own set of personal and business objectives. To be successful in winning them over and getting them to actively support our marketing program, we have to ensure that our joint venture aligns itself with what they want to do and what they want to achieve. It is not simply just about us – it is really about them.

So, basically, how do we make it work for them? Seems a very simply question and yet it is often not foremost in the growth strategies of most firms seeking to expand via a distributor channel strategy. Distributors want to know that you are out to make them successful, not just yourself. They want it to be a personal commitment of the business owners, not just another sales manager's short term target and commission. They want to see you invest with them and not just wait for them to send you orders. If you get the strategy right, it can be a very effective way to grow your business.

TRY FIRST

A small sample might win the deal

The rate of growth we can achieve in any business is fundamentally tied to the sales cycle of the product being sold. Thus if it takes us 12 months from lead generation to closing the sale, we can improve our growth potential by reducing that to 6 months. In doing so, our sales resources become more productive, we generate the gross margin quicker and we are able to fuel expansion faster. Identifying means by which we can reduce the sales cycle is thus critical to improving growth potential.

One major impediment to a sale is the lack of experience of the prospective customer with the product or service. While this is not an issue with low cost products, it is a huge problem when the sale is in the thousands if not hundreds of thousands of dollars. If the first time I get to use my new expensive widget is after I have purchased it, I am going to be very reluctant to commit to the purchase unless I have exhausted every avenue of product evaluation. We can substantially change this situation by allowing the prospect to try the product before they buy it. Even a limited experience might be sufficient to confirm the purchase decision. Even if the decision is negative, the seller is better off not wasting additional time with that prospect and can move on to find another.

You see lots of examples of try before you buy situations in the marketplace. You can test drive a car, listen to a CD in the shop, rent an item of equipment from a hire shop, try out a painting or rug in your home or borrow an item from a friend. The smart vendor creates a try before you buy environment so that the prospect can reduce their fear of making the wrong decision. However, not everything can be tried out in advance.

It is difficult to try out a haircut or restaurant meal without undertaking consumption. It is hard to choose an advisor before you get the advice or to have a unique home design undertaken before living in the finished house. Recognizing this problem, we need to go as far as we can to put the customer at ease. Thus videos of the product being used, testimonials of happy customers, limited trials and visits to see the products working in live environments can all be used to ease

buyer resistance.

In this situation we need to be proactive. Understanding the need for the prospective customer to undertake a usage experience, we can go about our sales strategy with this in mind. Can we create a usage situation where the customer can partake of the experience? Is it possible to set up a limited demonstration or have items which prospects can borrow for short periods of time? Can we bring them into a live environment so that they can see the product in use or can we stage such a situation?

We need to constantly be aware of what is troubling our potential buyer to see if we can make their evaluation easier and quicker. In so doing, we will drive higher growth in our business.

TOUGH CUSTOMERS

Look to the toughest customers for direction

If you wanted to list the two major contributors to spurring on innovation it would be tough competition and demanding customers. While we often acknowledge the former, we give little credit to the latter. It is the hard won customer that we have to fight for, demonstrating better functionality and features in our products are part of the battle. Once won, the tough customer also keeps us up to the mark demanding a high quality of after sales service. When your product has expired or your service delivery completed, they will then expect you to step up again and win the next order – nothing is taken for granted. There are no free lunches with these customers.

We often forget that those customers who are leaders in their own sectors only achieved that position by being the best in their industry. What they demand of us is no less than what they demand of themselves. They wouldn't retain their leadership position by allowing their own suppliers to let them down so they need the best suppliers they can find. We can expect them to ask us for the latest innovation and the highest quality of service because they need us to step up to our best so that they can do the same. To ask less of us would be to compromise their own strategy.

We can look at this as a problem or see it as an opportunity. A customer who is willing to try out new things, work with us on new functionality or on solving difficult problems is worth cultivating. When they confront us with new situations which require innovative solutions, they are pushing us to be creative, to go the extra mile and to break with conventional solutions. We can go along for the ride and challenge ourselves, push the boundaries and see what we can do or we can give in and be a follower, content to watch others succeed where we couldn't.

Those companies which innovate, discover new solutions to old problems or make breakthroughs in reducing cost or expanding performance, establish leadership positions which allow them to command higher prices. Their higher margins allow them to fund greater amounts of research and development thus building ever higher competitive barriers to their less well off competitors. Being

pushed by the toughest customers creates a tension inside a supplier organisation which then seeks innovative solutions to be the supplier of choice. Tough customer are good for business.

If you want to be really proactive, you would seek out the toughest customers in your sector to find out what problems they have where they don't have acceptable solutions. Can you build or deliver something which can win you some business with them? What would you need to do to become a supplier of choice? If you can gain a foothold, you can use this position to work with them on new products and then use this to leverage up your competitive advantage.

FUD

Fear, Uncertainty and Doubt

One of the earliest lessons I learnt in business was the FUD factor. Basically, people don't know what they don't know so informing them of looming disaster can seriously motivate them to purchase a solution. Of course, it helps if you happen to have the only solution in town.

The FUD factor falls into a category of techniques based on the 'compelling need to buy'. People will not hesitate to purchase a product or service if it saves their lives, takes away serious physical or mental pain or keeps them out of jail. However, sometimes they don't realise what danger they are in so you need to give them a little prod. So finding out that there are billions of nasty bugs lurking in your toilet or having a party on your tongue can get people out of their comfort zone and send them out with their wallets looking for a solution.

In B2B ventures, you need to keep your eye on regulations. Resolving compliance problems is a great way to stimulate business. Few business owners will hesitate to step up to a solution if they know that failure to do so will result in a fine, maybe closure of their business and, in the worst case, send them off to jail. So by keeping track of recent or emerging regulations within your target customer area, you might be lucky and trip over a need which you can satisfy. Your next task is to ensure that your customers and prospects understand the imminent danger they are in but, fortunately for them, you are there ready with the solution.

One class of individual who is especially sensitive to this type of approach are members of Boards of Directors. They are particularly vulnerable to situations involving safety at work, compliance requirements in financial reporting, governance issues and duty of care. Thus any aspect of these which are not being looked after well exposes them personally.

The FUD approach works especially well soon after a high profile damages outcome of litigation. If you have a solution which would have prevented the negative outcome from occurring, either by stopping the problem or showing that

due care was taken, this is a good time to get out there and market it. Even better if you can show successful outcomes within your existing customer base.

Products and services which satisfy a compelling need are easier to sell as they have less customer resistance, tend to be less price sensitive and have much shorter sales cycles. However, if this is to be the basis of a growth push, you also need to have a competitive advantage in your offering. Thus products which have strong underpinnings of intellectual property or intellectual capital have the greatest chance of establishing a leadership position. Then it is simply a matter of picking the right target market. Clearly, those potential customers who have the most to lose by not buying are the best ones to go after.

PRICE FLEXIBILITY

Have you tested a range of prices with customers

One of the biggest surprises to me in business was to discover that I was selling my software product too cheaply. Basic economics would suggest that at a lower price I would have sold more – wrong. What I discovered was that I was discounted in a lot of deals because the prospect (incorrectly) assumed I did not have the functionality they required because products at my price range typically didn't. Once we uncovered this insight into our target market, we raised the price and sold significantly more. The lesson for me was not to assume how the market will react but to go out and test a variety of marketing packages to see where the demand really is.

Over the years I have challenged many entrepreneurs to raise their prices. Just because your assumed competitor is selling at one price does not mean you have to follow like sheep. You may have a slightly different offering or be able to show other forms of customer value which will change your positioning. Value to the customer is made up of a number of attributes of which utility is only one, although an important one. Having access to information, being easily available, providing very good customer service or making it easy to maintain or replace the product are all components of value. Think green – what does this do for your value proposition? We often forget that we can compete across a wide range of product and service attributes. If we take the time to examine our target market, we can often find a niche within it where a higher price for a slightly modified product offering will work.

Price is often an indicator of quality, rightly or wrongly. In the services market, there are often problems in assessing the outcome until you have purchased and consumed, therefore, how do you judge the service before you commit? For many service offerings, especially personal services such as medical, investment advice or interior decorating, the most expensive services are often thought to be the highest quality. The same can be said of designer brands. Isn't it true that the more exclusive the brand, the better the quality? Certainly that is what the designer brand companies would like you to think.

I recall that when I wanted to cut back on my consulting work, I put the price

up expecting that the demand would fall. In fact, the opposite occurred, demand went up. In response, I kept raising the daily rate until it did have the effect of cutting back on the demand but it was at a significantly higher rate.

What we need to do in business is to find the price level which balances our ability to service demand with our growth aspirations. However, we need to be careful not to assume that price and demand are linear or, even, negatively correlated. Also, there is a lot of merit in testing the market to find out how different prices and product combinations will be received. The bottom line is that you need to understand your market and then use that knowledge to optimise your product/market position.

LOYALTY SCHEMES

Loyalty schemes do work

When you have finally worked your way through your nine cups of coffee and have earned your free one, do you ask yourself – does it really make a difference? That is, do loyalty schemes really work? Of course, you might be brave and ask someone who lost all their points when Ansett went under but perhaps confrontation is not the way to get your question answered. Instead, think of what you do to accumulate points or discounts and then whether you go out of your way to earn rewards. In fact, most of us participate.

I was a daily morning coffee addict at a local restaurant when they introduced a loyalty card – a free coffee on the tenth order. The only effect it had on me was to reduce the average cost of my coffee. After the scheme had been in place for three months, I asked the owner what effect it had on his business. To my surprise he told me that coffee bean usage had increased by a factor of six! Two years later I was even more surprised when a new owner withdrew the scheme.

I don't think it will work for every business but it is certainly worth exploring. Of course, there is nothing wrong with giving regular patrons a discount for loyalty but the objective must be to increase overall traffic. It is even better when you can take away business from a competitor who is not offering the same incentives. What you don't want to happen is to end up giving a discount but not increasing overall sales thus the introduction of a loyalty scheme needs to be carefully thought out. If you are in the business of selling to a customer once only or infrequently, a frequent purchase scheme will have little impact but you could join a network of suppliers under an umbrella scheme so that the incidence of earning points increases. Restaurants, hotels and rental car companies use frequent flyer points to capture the benefits of a broadly based scheme.

What we have to discover is whether it makes a difference. Given the choice of supplier, would having a loyalty scheme, or not having one, influence the customer? Generally speaking, it works better where you are tending towards commodity products where choice is made on price alone. If there are other more substantial benefits in the purchase, the impact of a loyalty scheme would

be overwhelmed by other factors and thus have little impact on buyer decision making. Thus they work well when there are lots of alternatives but less so when the item or service is unique or has few close substitutes.

If you are in a commodity market, it is worth thinking about how you might benefit from your own loyalty scheme or as a member of a wider network scheme. What could you gain, but also, what could you lose? If on balance, the benefits are positive, then it should be investigated seriously. Ask your regular customers how they would react and try the idea out on prospective customers and see if it would influence their purchase.

STRATEGIC SOLUTIONS

How important to the customer is your solution

There are countless silver bullets when it comes to driving growth and profitability in a business but we should never forget that the common ingredient is the customer. Ultimately, it is the consumer of our products or services who will decide whether we are successful or not. In our haste to fix everything around us, we sometimes forget that we need to work backwards from the customer problem to build a business which satisfies them. Getting their attention and keeping their continued business is critical for survival and growth. So just how important is your business to your customer?

At the bottom of the food chain are the commodity products, those items which are sold purely on price and where sales are won and lost on the latest promotional campaign. At this level there is little customer loyalty and your business has little connection with the consumer. As you add product or service differentiation, you gain greater traction with the customer but, if you have lots of competitor, growth is challenging. As you build greater innovation into your product or service, your competitive advantages improve and your customer relationships become stronger. However, innovation by itself and even strong intellectual property is not sufficient for sustained growth.

The missing component is the degree to which you solve a serious or difficult problem for the customer which the customer needs to have resolved. This is what is called the 'compelling need test'. Products and services which are easily deferred or not required or have effective substitutes are unable to sustain any reasonable level of growth. When times get tough, these are the products which are bypassed. Products which save lives, take away serious physical or psychological pain or keep people out of jail cannot be readily deferred and these will always have a market.

What you need for growth is both a compelling need and a strong competitive advantage, usually derived from strong IP or deep expertise. Products and services which satisfy these characteristics have short sales cycles, premium prices and resilient sales prospects.

If you have products which are somewhat weak on these dimensions, you

need to find other ways of creating value for your customers. There are many value components which you can work on including product information, product availability, customer services, after sales support, financing, complementary products and services and so on. The key here is to find out what resonates with your target customer and to build a value proposition across many value components to give yourself a greater point of differentiation within your target market.

Start the analysis with the question - How important am I to my customer? Then through internal discussion, focus groups with your customers, competitive analysis and some creative thinking, build additional components of value for the customer. As you connect better to your customer your referral rates will increase and your account penetration rate will grow as will your business resilience and profitability. In the end, your growth will be directly related to the answer you have for that question.

FEEDBACK

Use customer feedback to drive innovation

We know that innovation is important, after all everyone tells us so. We are told it improves our competitive advantage, allows us to charge higher prices, reduces our sales cycles and makes us feel good. Of course, if it was so easy, everyone could do it and that would negate its benefits. What they don't say is that it has to be the right innovation. New features and functions, improved processes or different ways of connecting to customers might get us excited but they may not actually improve our bottom line. So what can we do to ensure you are getting value for your innovation spend?

What we need is some form of metric to test whether it is going to help. Basically, any change should reduce costs or improve revenues. Even if we take a softer approach and say that it improves our working conditions or makes us feel better, from a business perspective it still should end up positively impacting the bottom line.

Obviously, we can look at the impact on other companies, especially in regard to operational processes. Thus a new machine might increase throughput or a new software product might reduce errors in transactions processing. Suppliers should be willing to provide case studies and testimonials to show how their products will deliver the benefits they claim. We can look at similar operations overseas to see what the latest innovations are. If there is a benchmarking program available for your industry, you can join and find out where improvements are needed but see what the better companies are doing to get the best results.

When it comes to driving revenue, there are a myriad of things you might do but you need to have some way of cutting through the options to find those which will work for your business. Competitor analysis and benchmarking might give you some insights into innovations which have worked for others, but will they work for you? In the end, it is the impact on your target customers which is the metric you need. Will your customers and prospects react positively and place additional orders, sign up or allow you to increase your prices? You could get radical and ask them!

Smart companies design ways in which they can connect regularly to their

customers and obtain feedback from them on product enhancements, new product additions to their line or changes in the way in which the business connects to them. Apart from regular customer visits, my former businesses all had annual user conferences where we would show new features of our software products. All our customers were assigned to industry user groups so we could solicit from them suggestions for new features and obtain feedback on current products. Probably 80% of new features in our software products were suggested by our current customers. We surveyed all the customers with lists of proposed additions and had them prioritise them so we knew which ones to develop first. It makes a lot of sense to have your customers to tell you what they would be willing to pay for.

MISTAKES

Higher margins allow you to make mistakes and survive

If there is one certainty in a growth business it is that it is going to consume all the cash you can get your hands on. If all you had to do was fund work in progress, you just might be able to cope but there are very large costs associated with growth which need to be funded well in advance of sales. Staff need to be recruited and trained, accommodation needs to be in place, inventory needs to be purchased and stored, computer software and hardware systems need to be implemented and so on. Infrastructure and support costs are lumpy and often need to be in place well before they are needed. Without access to a ready source of cash, growth business stall and lose their momentum.

The obvious solution is to have a source of finance available to meet the increasing demand for funding. But banks tend to shy away from high growth enterprises as they typically don't have the bricks and mortar to secure the debt. That leaves equity funding as the only practical external source of funds. However, new equity dilutes existing shareholdings. If the business is privately held, then the funds will have to come from the private equity sector and the money will come with conditions, not least of all that the investors will require a liquidity event such as an IPO or trade sale within a few years.

The only practical path out of this trap is to generate higher levels of cash organically. You do this by increasing margins – reducing expenses or increasing prices. While this may seem a bit impractical, in fact, the high growth business is well positioned to do exactly that. While some progress may be made by reducing expenses, the major source of extra cash will need to come from increasing prices.

High growth businesses are in a unique position. They achieve high growth because they have a number of key product/market characteristics. Typically they satisfy a compelling need, have a sustainable competitive advantage and target a well defined niche market. Generally, they work in emerging markets where demand exceeds supply. This unusual situation actually allows them to push up their prices as, at least at the margin, the market is not sensitive to small increments

in price. A lift in prices increases their margins and generates additional free cash.

Apart from fuelling growth, higher margins allow the business to take greater risks, recover from mistakes and fight off competition. It is like having a war chest which you can use at your discretion to use in the best interest of the business. It could, for example, be used to increase the rate of R&D and thus improve your long term competitive position or it could be used to undertake an acquisition to overcome a market or growth constraint.

We should never take our sales prices as given. By changing product positioning, target customers, problems addressed and distribution channels, we can often find ways of increasing the price and therefore the margins. Any sustainable increase in margins will greatly improve the resilience, growth prospects and profitability of the business.

COMPLIANCE

What compliance problems are you focusing on

I am asked all the time to help businesses find growth drivers. Almost without exception, I ask them about the compliance requirements associated with their products or services. The reason is actually very obvious – your customer has little choice when it comes to complying with regulations. Failure to do so might result in a fine, office or plant closure or even, in the worst case, the company directors going to jail. Don't you want to be the supplier who is able to stop all those nasty things happening?

Every sector of business is littered with regulations. There are numerous reporting requirements in health and safety, taxation, employment, waste disposal, building design, product labelling and so on. No matter what your business is, you can't get away from them. Not can your customer, which is where the door opens for you. In business we are always seeking is a way through the door. Once inside, you get to put your sales proposition forward. But if you don't get in the door, you never get the chance of a sale.

Regulations drive sales because they reduce sale resistance, decrease the sales cycle and have less price pressure. When we have no choice about doing something because the alternative of not complying is nasty, we tend to get on and do something about it. If you happen to have a product or service which satisfies the need to comply, you have a very good chance of a sale. If you happen to be the only one which can do that, the market is all yours.

Obviously, your first choice would be the supplier of the solution. Look around your sector and identify the regulations which are in the field of knowledge or solutions in which you work. Can you incorporate a solution into your product or service set? If you can't build a solution, can you buy it in or secure a distribution agreement to make it available?

If you don't have the capability to supply a compliance solution, find a strategic partner that you can work with who can. The customer door is opened with a compliance solution, but once opened, other products and services can be cross-sold. As they say, it is always easier to sell to an existing customer than to find a new one. The key is to get the customer relationship and this is where

compliance solutions are critical.

If you are not currently offering a compliance solution, you might think about doing so in the future. The current regulations will have existing suppliers, but new regulations and emerging regulations may not. Find out what changes are coming in your target sector and then either develop or acquire a solution. Let your customers and prospects know about your solution as soon as you have it available so that you can be first in line when the new regulations starts to bite.

Higher growth occurs when you reduce the sales cycle and so you should always be looking for products and services which can assist you to do that. Compliance solutions should be on the top of your shopping list.

SURVEYS

Do you survey your customers

Customer loyalty is a fragile thing, hard to earn and easy to lose. But it can be the major competitive strength of the business in situations where it is difficult to protect your products or services from being copied by competitors. Customers who are engaged with you on how your products and services develop over time and who feel that their input is valued are more likely to stay with you. Asking your customers what they think can be a powerful tool in your competitive strategy.

We need to acknowledge that we don't know everything about our customers' needs and be open to customer input. While we might be the expert at the functional nature of the product or service, the customer might have different uses or want to solve slightly different problems. They might also wish for the product or service to be delivered differently, available in different forms, come with a variety of accessories or have other forms of help or after sales training options. We shouldn't be second guessing our customers. They can be our most valuable form of marketing information.

One of the things we try to do in business is buy time before our competitors can effectively compete with us. If our customers are committed to us, we buy time to improve our products and services to match those of our competitors. When our customers request changes to our product or service and we willing engage with them in those discussions, they will give us time to put their suggestions in place. During this time we are, in effect, blocking our competitors from taking away that business. Providing we deliver on our commitments, we show our customers we value their input but that we also want to provide products and services which satisfy their needs.

An exercise which I undertook when I had a software business was to have the customers suggest improvements and then circulate the entire list for them to rank. We could not commit to doing everything on the list but we always put effort into meeting the most popular items. Customers really appreciated the chance to see what others were asking for and valued the chance to participate in the decision as to what would be offered in a future version.

Whether it is a point of sale, internet or mail survey, a lot of valuable information can be gathered from customers and prospects about your products and services and the manner in which you interact with the customer. Feedback on how well you are doing allows you to assess your offerings, check the quality of your customer service and make sure you are not missing something important which would have your customers going over to your competitors without ever telling you they were dissatisfied. Not all customers will respond, but sufficient should for you to gauge the overall response. Customers don't want their business taken for granted and most will welcome being asked their opinion. You should use this as an opportunity to improve your business and build loyalty with your customers.

DIFFERENT PRICES

Revenue management

Airlines understand that an empty seat is a wasted opportunity. There are huge fixed costs with an aeroplane and lots of costs which will be incurred whether the plane is fully booked or half empty. Any contribution above marginal cost helps to cover the costs of putting the plane into the air. But at the same time, they don't wish to compromise their market and give business away. They use a technique called 'revenue management' to optimise their seat income for any given flight.

When you fly a segment for \$129, chances are you are sitting next to a person on one side of you who paid \$400 and on the other side, someone who paid \$795. Same seat, same food and same service. The difference is in the conditions of the ticket. Pay one month in advance and get a cheap seat but don't cancel or you lose all your money. Pay a little extra and you can change the seat with a cancellation fee. If you want absolute flexibility, it is yours but you have to pay full fare. Seats are initially allocated to different categories of prices and conditions to give the maximum revenue per flight. Seats are then reallocated between categories as seats are booked and the airline is better able to predict the take up of each category. The overall result is far better than what could be achieved with a standard fixed price per seat.

The same revenue management techniques are used in the hotel, car rental, theatre and restaurant businesses. If you wondered about the logic behind 'happy hour', this is the reason. But what is surprising is how many business could use this technique and how few actually do.

Revenue management is applied to any 'time expired asset'. Basically any asset which is charged out on a time basis is a candidate. You are paying for the asset already, whether it is a restaurant seat, airplane seat, hotel bed or rental car. If it doesn't get used, you still have to pay for the time. What you want to do is generate the highest usage possible. In order to do so, you segment your users into categories to match their needs and price points.

The same logic can be applied to many industries. Plumbers could charge different rates for different portions of the day or varying levels of flexibility in appointment times. Shop floor space could be rented out in low season at a

different price rather than sit cluttered up with off season products. Consultants could be charged out at different rates depending on the size of the commitment. Magazines can have different rates for advertising dependent on location, commitment and advance booking time.

You should be examining each asset you have to see if the principles of revenue management could be applied to them. Customers already understand how this works and should be receptive to some innovative thinking. Have a conversation with your regular customers to see what would work for them which will increase your asset utilisation.

MULTIPLY

Network effects

If you have a business where your customers need to connect to different service delivery points around the country then you should investigate a business model which has a network effect. Think of a network as a series of nodes connected by lines where the nodes are points of service delivery and the lines link the customer to the service delivery points. A business based on a network has a compound benefit effect as each new node is added.

When you sign up for a mobile plan, you are interested in coverage. If you travel around the country you want a mobile network which gives you the greatest coverage. The telecom company with the greatest coverage has a real competitive advantage. A similar argument can be applied to package and courier delivery businesses. Each additional node added is not only a point of delivery but also a point of service initiation. Thus the next node not only picks up new business but expands the reach of every other node in the network. A similar argument can be applied to a bank ATM network.

Network business models work best where the customer needs to connect to multiple points of service delivery or where the customer is highly mobile and needs to be able to receive service at many locations. Customers who have many locations and want a consistent service prefer to deal with one company who can provide the same service but on a local basis. Accounting firms and legal firms attempt to do this by opening their own offices, by franchising or using a cooperative business model.

If you have a business which has clients who have multiple locations or are mobile and need a dispersed service delivery, it is worth investigating how you could provide a consistent service on a wider geography. One way to do this is to franchise a business model. Where the systems and processes can be tightly defined and monitored and where the staff can be trained to deliver a consistent outcome, franchising can work. Another way to achieve a similar outcome is to build a loose network of providers who agree to work under a common banner to deliver a common service. A network service to dispersed customers is a very powerful marketing proposition. You make the task easy for the customer because

you take care of the problem of where to get service rather than the customer having to deal with multiple suppliers, often with inconsistent functionality or delivery quality.

Many customers would willingly pay a premium to have a consistent service across multiple locations, whether this was through the same company, a franchise or a partnership model. The customer wants to know what they are getting for their money but also to be able to have one conversation about what they want and get it delivered consistently across numerous locations. This informs us that the model needs to work from one location but involve and commit the other service delivery points. Network business models are very powerful when done properly.

REPUTATION

Building a reputation

Successful entrepreneurs recognize the significant contribution of a positive business reputation. We are all influenced by what we think about a specific business. Who would you rather do business with? A firm you were recommended to or one that you did not know? Who would you rather work for? A firm that was known to treat staff well or one you didn't know? Reputation is about what people say about you to others; it can work for you or against you. Your task as an entrepreneur is to build a reputation that makes business easier and more profitable.

For most businesses, customers are their best marketing resource. A business that has excellent customer relationships has their customers actively referring them to potential customers. A prospect that has an independent referral should be much easier to sell to than one that you have generated through your own efforts. You can improve your reputation with customers by having fair contracts, providing superior customer service and dealing with issues, problems and complaints promptly and fairly. Customer loyalty depends more on how problems are dealt with than how well your product or service matched those of your competitors.

A positive reputation with your suppliers and partners can be the key to being able to meet an urgent order or cope with a difficult problem. Supplier and partner relationships really matter when you are under pressure. But the supplier or partner that has little personal contact won't be very responsive to a problem or a request. When you need help, when you need some advice or when you need some additional support for a contract that is beyond the normal terms of your agreement, your reputation for being helpful, honest and fair can be critical.

Reputation within the local community and within your industry can be a real help when it comes to recruiting. People would rather work for a firm that had a reputation for being a 'good' employer than take the risk on one that is unknown or that has a poor reputation. It is also more cost effective to recruit people who are recommended or who initiate a job enquiry. Firms who have positive working climates and that actively create good employment conditions

are preferred employers.

In the wider community, firms that actively participate in their industry associations, that compete for awards for best practice and innovation and contribute to their communities, become better known. They are often seen by their industry and community colleagues as a 'leader'. This can make it easier to do business with professional service firms, financial institutions and government departments.

How can you improve your reputation?

Firstly you need to establish what your reputation is now. You can do this by talking to customers, suppliers, employees, competitors and the media, however they may not be entirely honest face to face. A more effective technique is to use an independent party that is experienced in interview techniques and data analysis. What do you expect to hear? Do you have the same impression about your business that others do? What surprises will you get? Sometimes we are simply too close to the trees to have an objective view of our own business. Getting an objective review can help to bring out issues that need to be addressed. A poor reputation can impact negatively on recruitment, prospecting and profitability.

Customer reputation can be improved by actively connecting with customers. Instead of waiting for customers to contact you to place an order to make a complaint, develop processes where you seek out their opinion and then work through any negative issues you discover. Problems and complaints need to be treated as a matter of priority rather than put aside. Listen to customer suggestions and implement them where they have an overall, positive impact. Then be sure to let your customers know that you have implemented their suggestions.

Supplier and partner reputation can be improved by making sure that each supplier and partner has a contact within the firm that has the responsibility for developing a personal relationship. Review your contracts and agreement to ensure that they are fair and reasonable. Review your relationship with each party and ask them how it might be improved to your mutual benefit.

Review internal conditions to see if you really are providing a good working environment. Each individual needs to feel that they are making a contribution, are respected for what they do and need to know that they will be dealt with fairly in decisions that affect them. Staff need to feel a sense of belonging and purpose. What can you do to encourage these aspects of your business?

Lastly, get involved in your industry association, professional associations and your community. If you are making a contribution, you will become better known and this will give you the opportunity to promote your business to potential partners and employees. When you have good news, share it through the local, national and industry media.

A positive reputation can be a very real asset to a firm in securing business, recruiting staff and gaining political support. A proactive approach to reputation building is an important part of the long term strategy of any business. You can't build a reputation simply by spending money on advertising telling people what you want them to think, it can only be done from the ground up. Your relationships internally and externally need to be to be fair, positive and proactive.

CONFLICT

Avoid channel conflict.

When it comes to distribution channels, many entrepreneurs believe ‘more is better’ but the truth is that often ‘less is more’ otherwise you may have some serious issues of channel conflict that you have to deal with. Getting to market is a challenge for any business and choosing the right channel is a key strategic decision, adding additional channels may be the right thing to do but only if you have clearly worked through the issues of how you are going to manage any overlap and deal with any conflict that arises. When you put together a business that involves wholesale, retail and internet your own staff and your alliance partners may not be overjoyed.

Channel conflict occurs when two or more channels of distribution promote products to the same customer. So for example; the consumer that can buy from a retail shop or direct via the internet may be able to work out which is the cheaper, thus cutting out one party. The conflict occurs where the consumer uses the resources of one channel to evaluate a product or service and then buys from an alternate. You are now competing with yourself and potentially wasting resources. Even where you own both channels, you may have sales incentives which are being compromised. It is hard to motivate staff if you are undermining them.

My personal experience of this situation comes from an ERP software business that I had which had a direct sales force as well as distributors. On several occasions I had a situation where a salesperson from a distributor and one of my own sales staff ended up submitting proposals to the same prospective customer. Of course both parties claimed that it was their own. Whatever I did, one party was going to be unhappy with the decision. In the end I established a series of guidelines which could objectively ascertain which party owned the prospect. Later on I decided to introduce a national accounts strategy for the direct sales force however I discovered that it was not always obvious who the

ultimate parent company was. Naturally the distributors did not want to give up any territory, especially where the deals were very large. With hindsight I should have laid out the channel boundaries before I signed up the distributors so that everyone understood the market they were targeting.

This problem occurs in a wide range of businesses. Associate Professor Stewart Adam of the Faculty of Business and Law at Deakin University has advised many companies with their e-business strategies, often in situations where the business intends to use multiple channels that include the Web. He has observed that the Web may be used either to more effectively co-ordinate the activities of partners in marketing logistics networks, or to engage in a redesign of their marketing channels Adam points out that the problems usually arise when firms seek to 'go direct' and also retain their more traditional marketing channel partners. He adds that the current network partners see the firm's actions as a further example of disintermediation, and a threat to their commercial existence. The commercial world is full of such examples, with the airlines being some of the most visible. As airlines compete more aggressively in the packaged holiday markets, their channel partners, the travel agents, need to find new ways to add value to attract business.

How do you avoid channel conflict?

You have to design a channel strategy that clearly identifies a specific type of customer with a chosen distribution channel. Next you need to build your marketing strategy so that it drives the right prospect to the right channel. At the same time, the various channels need to clearly understand which prospects they are targeting and that the investment of time and money they put into their sales efforts will not be undermined by cannibalisation from another channel. Markets can be divided up by territory, type, vertical market, products offered and so on. The level of business achievable needs to reflect the size of the potential market and the resources available to secure the business. The sales commissions and other incentives need to be aligned to achievable targets.

Conflicts may still arise and so rules of engagement need to be established which are fair, objective and equitable. If necessary, an external arbitrator acceptable to both parties can act as a tie breaker.

Where the same products are offered in overlapping channels consider using different brands and perhaps packaging the products with slightly different

features or accessories. While consumers may compare the two, you don't want them to be able to shop around for an identical product looking for the cheapest price. For instance; you can use an internet site solely to promote products and drive sales to your retail channel. Be careful with internet discounts as these will be seen by your other channels as undermining their sales efforts.

Consider involving your channel partners and staff in the development of the marketing strategy. They may be able to see areas where they can be successful and where a new channel will supplement their own efforts. By having them actively involved in the design decision, they may come up with some creative suggestions. They also have a chance to voice their own concerns and potentially could assist to create a channel design which is acceptable to all parties.

It can work very effectively – it just needs some careful planning up front.

DISCOUNTS

You need to be careful when offering discounts

If you have ever been caught up in a discount war you will know that the results are not only unpleasant and stressful but can be severely damaging to the health of your business. While most businesses participate in some form of discounts for limited periods, a venture that finds itself dependant on discounts to drive transactions is most likely not going to survive. Discounts have a nasty tendency to take control of a business if not managed correctly.

Commodity based businesses are the ones most likely to get caught in the discount spiral. With little to distinguish themselves from their competitors, they quickly resort to promotions and discounts when the going gets tough. What they fail to recognize is that their competitors are then forced to follow suit. The end result is a downward spiral of decreasing margins as they fight for market share.

Nothing could demonstrate this better than the competition in the family car market in the USA throughout the middle months of 2005. The big US car manufacturers, General Motors, Chrysler and Ford have all been suffering in recent years. Increased competition from foreign car makers, recent increases in oil prices and poor labor relations have all taken their toll. This has been exasperated by increasing health insurance costs and pension funding of retired employees. GM kicked off the discount war to clear excess inventory by offering 'employee discounts' to the public. Basically any buyer could buy a GM car at the same discount as a GM employee, something like a 25% discount. This remarkable offer resulted in GM booking their highest month's sales for several years.

One month later Ford and Chrysler introduced similar discounts. While all three recorded record sales over the next month, this came at the cost of their gross margins. What was fascinating is that none of the foreign car makers participated. One was left wondering whether the big three US car manufacturers were simply taking business from each other rather than from their most dangerous competitors. At the same time, one was also left with the feeling that they may have simply been pulling sales forward and that they have done this at the expense of future more profitable business.

At the time this was being played out aggressively through television advertising (about every fourth advertisement), I was wondering how they were going to stop the discounts from continuing in the future. What is to stop any future customer demanding the ‘employee discount’.? While all three limited the discounts to the end of July, they were all being extended through August with no effective end in sight.

The greatest danger in offering discounts is that they become the norm and the business can never recover back to the prior pricing levels. Large department stores are quite expert at managing limited time discount sales where special product lines, signage and layouts are used to indicate a sale and then it all disappears at the end of the sale. Airlines manage discounts by attaching them to special conditions. Unless you meet the criteria and agree to the special terms, you don’t qualify for the discount. This allows them to pick up marginal business or achieve other financial objectives without unduly undermining their high margin fares. Criteria and conditions can be changed over time to make longer term comparisons more difficult. Thus special offers can be altered over time to manage revenue generation. The US car makers did restrict the ‘employee discount’ to their 2005 models but they could have further limited the long term impact by restricting it to a range of cars with less features or with special delivery and payment terms.

I was in the application software business for many years and was forever being asked for discounts, but I found they were unproductive. If a new customer was given a discount, prior customers would get upset. If a prospect found out about a prior discount they would ask for it. Sooner or later everyone has a discount and you are powerless to argue against it. Eventually we decided to only allow discounts when we were under severe pressure from a very close competitor, but we always negotiated a special arrangement so that the circumstances of the sale were complex and special. This allowed us to tell future customers that in fact no discount had been offered only that special arrangements had been entered into for reference visits, public relations, cross training and so on.

Another technique that I have also seen successfully used is to ask the customer - ‘which part of our service do you not want so that we can cut the price?’ Basically, if they can show where cost savings can be made in the service delivery, you might be willing to pass on this cost saving in the form of a lower price. Of course, the customer wants it all and your argument is that you can not provide the level of service that they require if you are cutting corners.

It is always more effective to spend your energy on finding ways to improve margins than to give them away. Improving margins will have a long term positive effect on business resilience and profitability. Discounts, on the other hand, can sometimes seriously damage the long term prospects of a business. Handle with care!!

DIVISIBILITY

Test drive before you buy

We all have an experience of buying something that we later regretted. Maybe clothes that didn't fit, food that tasted awful, paint that turned out to be a different colour than the display, cars that didn't fit in the garage and so on. Consumers have a natural reluctance to part with their money and as the size of the purchase increases, so does the FUD factor (Fear, Uncertainty and Doubt). Companies that provide a mechanism where the consumer can test out the product or have some limited exposure to it in a real life environment can generally overcome this resistance. There are in fact lots of different techniques for constructing a test-drive activity for your product or service.

Imagine wanting to try out a new model dishwasher or washing machine before you buy it. Maytag, a US household appliance manufacturer has set up 50 stores throughout the US where prospective customers can bring in a load of dirty laundry or dishes and try out one of their machines. Another retail chain allows you to try out a vacuum cleaner on a store provided test area with store provided dirt. REI, a large US sports equipment store, has allowed customers to erect camping tents just to see how easy it is.

The test drive concept is not new for many products, especially vehicles, but imagine you were able to test drive 30 or 40 in one day on a specially set aside track. This is what General Motors is doing in 31 cities across the US – they even have competitor cars there for you to drive and compare. In New York you can now rent a camcorder or digital camera for an hour for free to try them out. Where there are large numbers of similar products, the one that you try out that achieves your objectives is probably the one that you will buy.

This concept of 'divisibility' is aimed at reducing the perceived risk to the potential customer. It both reduces the decision time as well as the buyer resistance. For the seller it also reduces the after sales risks. It is a very common technique in marketing but has not been exploited enough by most industry sectors. The key components of a 'try before you buy' strategy are; can the product be used in small increments or small periods of time to test them out; can they be made available widely to decrease the time the potential customer needs to allocate

to test out the product or service; and can the test situation mirror as closely as possible the real environment in which they will ultimately be used.

Not all products or services lend themselves to a real live test, perhaps due to the set up costs, the size or the product or the complexity of training. The sales objective however should be to get as close as possible. In some cases only a limited number of critical features need be demonstrated or tested. So for example; a test bed of data can be used to show how reports or enquiries might be used in a software application, a simulator might be used for an aircraft or a short run sample production test line could be used for a machine tool. Alternatively a video might be used to show a product in use where significant cost would be involved in a recurring demonstration.

One of my former businesses developed and sold supply chain optimization software for high volume, low value, consumer packaged good manufacturers. One of their biggest problems was forecasting sales. Of course all the competing forecasting systems claimed to provide superior forecasts. We found that by processing a small sample of the customer's historical data we could actually show them an incremental improvement over their existing forecasting systems. By extrapolating the forecast improvement across their entire inventory we could show projected reductions in their safety stock. This was then used to show them how they could justify the investment in our products. It was a very successful marketing strategy.

Swinburne University pioneered the Industry Based Learning (IBL) program to allow employees to employ students for limited periods during their educational program. Students undertaking the program have a chance to work in a real working environment without having to be confronted with the daunting task of applying for a job, going through interviews and waiting to see if they have an offer. The IBL program has a 100% employment rate, far higher than normal graduate employment rates. Both employers and students get to 'try before they buy'.

Entrepreneurs introducing new products or services into the market have great difficulty in generating revenue. Often the problem is that the product or service requires the consumer to do things in a different way or overcome long held routines or beliefs. Resistance and misunderstandings in these situations are very high and cannot be overcome easily by traditional advertising. This situation lends itself very well to a test-drive strategy such as limited trials, renting, product

samples or videos of actual usage.

If you are not currently using a test-drive marketing approach, I urge you to start thinking of how you might. Talk to your current customers and ask them how you might have decreased their decision period or reduced their uncertainties about the product or service before they bought. Look at completely unrelated industries and see if some of their techniques could be adapted to your own business. Take the initiative - don't wait for your competitors to show you how.

BETTER SERVICE

Innovation and customer service

There is a popular view that an entrepreneurial venture is based on a breakthrough invention. However, breakthrough inventions happen infrequently and few entrepreneurs are inventors. In fact, in the modern economy most businesses are created around services rather than products and customer service has now become the key to success for most businesses. The key to a successful venture today is often simply to discover how to create additional customer value at the point where the customer connects to a common product or service. A distinguishing characteristic of the entrepreneurial venture is that it involves innovation, most often in the way the business is done rather than through the product it offers. Innovation in customer service has been the major competitive advantage of many entrepreneurial ventures.

Many businesses offer the same product or service, so why does one business stand out above the rest and end up growing faster and taking market share from its competitors? Smart businesses know that the product or service is only one part of the value proposition to the customer. After all, the customer often has a choice of many different suppliers. While some may be willing to hunt around for the cheapest price, many others are concerned about the amount of time they spend to find the right product, pay for it and get it home. Others want to feel good, secure and comfortable or be entertained by the environment in the place they buy at or in the experience they have when they shop. For some customers, the brand or image of the product or supplier is important, especially if that image translates into feeling good about oneself or having the admiration of others. These components of value provide opportunities for the entrepreneur to create a different buyer experience. The successful ones are able to create a customer service that can leverage a premium price.

Many innovations have been introduced that serve the business but annoy, frustrate or create problems for the customers. Customers become irritated with automatic voice mail systems that provide 16 layers of options only to return you back to the beginning to start over again. How many times have you been told

‘your call is important to us – please hold for the next available operator’ only to wait 20 minutes. Or perhaps you have an experience of a web site that fails to provide an address or phone number and never replies to their info@ email contact. While these changes may be helping the business to reduce costs, the concept of customer service seems to have been lost in the process. Technology used incorrectly or inappropriately can significantly reduce customer service.

A customer service incorporates all aspects of the buyers’ purchasing experience from recognition of need to final disposal of the product or use of the service. Thus there are many points in this process where the entrepreneur can create a point of difference and secure customers. Smart entrepreneurs have focused on different parts of customer service to see where additional value can be created. Technology has certainly played a major part in making our lives easier. The internet is now used by many consumers to research products before they are purchased thus saving them time and increasing their chances of finding the right solution to their needs.

Customers now use the internet to order on-line, arrange shipping, track their orders and shipments and pay their bills. Restaurants can advise customers waiting for a table that their table is ready using a clip on buzzer. SMS messages can be used to advise of changed appointments. Global communications has allowed many firms to move to a 24/7 help desk where they use offices around the world for a rolling personalized support service. Micro marketing using sophisticated database technologies now enables a firm to inform a customer of available products that might meet their profile or of other products that are often purchased with the one they have selected. Firms can be proactive with their customers prompting them with reminders of appointments using e-mail or SMS. Reservation systems for rental cars, airlines and hotels can recall customer profiles and ensure preferences are taken into account. Technology can add a personal touch which can enhance value to the customer experience.

The ultimate test of an innovative customer service idea is whether the target customer sees the change as an enhancement in their buying experience. Does it make a positive difference? Are you delighting your customer and making them feel important to your business? Whether it is making the buying experience a better one, adding value through fun, brand and image, providing value through supporting a worthy cause or making it easier to use the product through better training and support services, innovation needs to be directed at things the customer considers important to them - not to you.

Opportunities abound for entrepreneurs to create new businesses through innovative customer service. Listen to complaints and watch how customers spend their time. Can you think of a way of making the buying or using experience more productive, enjoyable or interesting? Consider how new technologies might be used to provide better or more timely information or how they can be used to generate additional value during the service experience.

NETWORKING

Build networks to drive new revenue

Networking is a highly underrated business capability. Networking skills in an emerging business can contribute significantly to the growth and profitability of the venture. Successful entrepreneurs have well developed networking skills. For most, the techniques of networking came naturally while, for others, they observe and learn. Successful entrepreneurs access resources and knowledge beyond the boundaries of their firms through networking. They use their connections to generate business, recruit staff, and access contacts and advice. If you are not a natural networker, it is a capability that you can learn and benefit from.

The purpose of networking is to connect with others that might help your business in some way. Proactive networking is when you put yourself in a position where business connections are more likely to occur. This might be where you might meet potential customers or where you might connect with a potential supplier or strategic partner.

People who are successful at networking will always say that networking is about giving. A network where members freely help each other with ideas, contacts, advice and assistance is much more likely to bring rewards to each member than a group that meets to solicit business. People are more willing to help someone that has a reputation for being supportive and is known to actively help others. In fact, networking groups that are formed purely for networking purposes usually fail because they have no higher purpose that binds members together. Associations that are formed to promote the industry or to provide industry education or community benefits work because they ask members to give their time to help others. The networking benefits come as a result of being involved not as an end in itself.

You should actively participate in industry events. Become involved in your industry through industry associations, professionals associations, industry forums, industry educational and training programs and so on. This connects you to executives within the industry that can lead to prospect referrals, recruiting opportunities, joint ventures, consortium bids, out-sourced contracts and information and advice about best practices. It is also a good way to meet with

executives from businesses that you might later acquire or be acquired by.

Become involved within your community. While this may not lead to business contracts, it can help with local recruitment and access to local politicians who can help with planning issues and licenses. Working with the local community on charitable projects can contribute towards a sense of pride within a business which helps develop a positive business culture.

Connect with your local educational institutions. Recruitment is often a problem for emerging firms as they have to compete with larger more established businesses. Those firms that are known to students through internships, classroom projects and guest speaking events are at a real advantage when it comes to recruiting locally.

Once you find yourself in a situation where there are opportunities for building relationships, you then need to actively engage with others. To network you need to be willing to initiate a conversation with someone you have never met before. The conversation may be just to establish a contact but you don't always know in advance where a connection might lead. If you don't make the effort, you certainly are not going to gain any future benefits. You also can't expect people to guess how they might help you or how you might help them. It is important that you ensure that the person being engaged with understands what you do. Lastly, you need to have a way of following up on the conversation by exchanging personal contact details.

Remember to make a note to remind yourself of a network conversation. Many people make short notes on the back of the received business card to remind them of their conversation. Don't forget to have business cards with you when you go to a business or community function. If necessary change your own business card so that it conveys information about what you and your firm do.

Then don't forget to follow up on your contact. A short note or e-mail to acknowledge the meeting and a reminder of how you can help is a good way to remind your contact of the meeting. If you have offered help or to provide a contact name, then put this in writing. This will remind your contact of where the information came from and they will often respond by asking how they can help you.

Networking is very cost effective marketing. The benefits from effective networking are cumulative over time as you connect with more people. Network contacts can grow exponentially where you and others share network contacts. While you need to put time into networking, the overall use of time is very efficient. As your network grows it becomes easier to access the right person when you need help.

The key to networking is to be proactive. Become actively involved in your industry and community and offer help where you can. Seek out industry and community associations where you can contribute. Initiate contacts and make sure you follow up. As they say 'what goes around comes around'.

SETTING EXPECTATIONS

Set expectations and deliver to them

With the enormous range of choices for products and services that we now have, most of us would argue that we are spoilt for choice but still shopping can be frustrating and annoying when we are misled or mis-informed. With products and services that we use frequently we all have a set of expectations based on our prior experiences. We thus approach the buying experience with a set of assumptions and unless we are provided with new information, we expect to walk away with something that will meet those expectations. When this does not happen we can turn into very unhappy, if not angry, customers and this can have a long term damaging effect on the seller as we tell all our friends about our unhappy experience.

You will all recall the message about ‘delighting the customer’ and ‘exceeding their expectations’. This is said in a positive way – that is a very happy customer will help promote the business leading to more customers wanting your product or service. Clearly the opposite then applies – the unhappy customer whose expectations were not realized is going to tell lots of friends not to buy from you.

I had a number of personal experiences over the last couple of months that brought this lesson home to me. I had been traveling extensively through the USA going to a series of conferences, visiting with friends and delivering workshops. Every few days we would move cities and thus hotels. When you are living out of a suitcase you become very sensitive to the quality of the small room you live in. I gradually started to notice the inconsistency in the housekeeping. Each day I would return to the room and see some things done differently. Perhaps the bed was made differently, the curtains left in a different position, items left out one day and put away another. In one hotel a number of items needed maintenance and they were left unattended over several days even though each day the housekeeping staff cleaned or reset them. In one hotel the exact same breakfast came with different content and layout each day and that was a 5 star hotel.

While this is a somewhat trivial example I can only say that it became increasingly annoying and sometimes frustrating as I laboured to obtain just what I wanted, which I had thought was what I should expect. At one hotel I made up

a list of 16 items that failed to meet my requests over a 24 hour period. The hotel manager was staggered when I left the list with him on my departure.

I had a more recent experience in buying shirts. I guess it is too much to expect that a standard size actually exists, but when two shirts from the same brand with the same size on them, although different styles, differ by two inches in sleeve length you are probably entitled to lose your cool. This is even more annoying if you have purchased the items after trying one on and take them home only to discover you only have one that fits.

Customer relationships can make or break a business. The business that consistently meets and exceeds customer expectations can build a considerable competitive advantage and develop revenue sustainability through strong customer loyalty. On the opposite side, the business that consistently fails to define their product and service well, that fails to reset customer assumptions about the product or service and continually disappoints customers at the point of purchase or later at the time of use, is a business that ultimately will fail.

Setting customer expectations is not that difficult. This can be done through advertising, product labeling, product instructions and well informed sales staff. It is important to test out customer expectations during product and service design to ensure that the time and effort is taken to ensure that the product or service meets or exceed those expectations or that they are effectively reset prior to or during purchase so that the customer has a good buying and use experience.

It has often been said that the most valuable information a business can have is customer complaints and that these should be acted on with care. Clearly the business that encourages feedback and acts on it can quickly bring product and service content into line with customer expectations or can quickly find ways to reset the customer expectations. In the long term, customers are happier and certainly, of great importance to any employer, the staff have a better experience dealing with customers.

Sales and service staff need to be trained to be sensitive to customer feedback about what they expect and how the service and product delivery and use meet those expectations. This can also be done with comment cards, reply paid questionnaire forms in product packaging or with complaint phone numbers.

At the end of the day we are all experienced shoppers, whether it be for food, cars, household appliances or business services. Our choice of supplier is always

going to be colored by that experience. The delighted customer will not only come back to buy again but will tell others about the experience. A mistake made that was well handled to your satisfaction creates an equally positive experience. You might take some time out and talk to some of your customers and see what they think of their experiences dealing with your business. You might be delighted – or then again – you might find out something that needs urgent attention.

OVERSEAS

Using overseas distributors

Many SMEs use overseas distributors to extend their reach to potential customers and thus gain access to resources and distribution channels beyond their own. However experience with distributors varies greatly from high satisfaction to disasters. Why is it that some distributors are successful and others not?

For over 15 years I used distributors to sell applications software. They were spread throughout the world and were in both large corporations and small start-ups. Over time I became better at selecting and managing them but not without a few failures along the way. Often the most obvious potential distributor was the worst and the least likely the best. It took a few years before I understood the process and the rules of engagement that would provide the best outcome.

The key to a distributor relationship is an acceptance that the distributor has his/her own business to run. That business has a life of its own outside any relationship you might have with it. The management and shareholders have their own objectives and will look at your proposition in the light of their agenda and not yours. Generally the approaches of 'I want to sell you something' or 'I have something you can sell' are a mistake. The only successful approach that I found was 'I want to work with you to make you more successful'. Success for the distributor needs to be in their terms not yours. Unless your business proposition can truly align your objectives with theirs, the relationship is probably not going to work.

Selecting a distributor means finding a business where their efforts in representing your product makes them successful in such a way that you are successful as well. The less effort they have to expend to achieve success and the less risk they face in achieving the levels of business you require, the more likely they are to be successful and thus the better fit you are likely to achieve. The better distributor therefore is likely to sell to the same sort of customers, use the same selling techniques or channels of distribution, sell products of a similar value and/or sell products which are complimentary.

It is worth doing some due diligence on the potential distributors. Use Austrade and the local embassy commercial advisors to source a list of potential distributors. Talk to other firms that use them as a distributor, ask for customer and supplier references and use a credit reference agency where they are creditable. Working with distributors is a very personal activity. Loyalty and effort are often related to the quality of the relationships you build with the owners and the staff assigned to your products. Make it personal. You need to spend time getting to know them and working with them on your activities.

Distributors are fickle. If they are not achieving success after some reasonable level of effort, they will abandon you and move on to the next partner. There are however some things that you can do to ensure that you get a fair chance. No one wishes to make an investment without having a reasonable chance of achieving a return on that investment. You need to build a case that shows them that the investment is worth making.

There are some things that you can do to increase your probability of success:

- Each party must share some of the risk in the venture
- You need to show some level of commitment
- They need to demonstrate a commitment. This could be a marketing budget, dedicated sales effort, resources allocated to a training program and so on.
- Your success must be based on their success
- There needs to be problem resolution processes and an escalation process for problems not resolved at the operational level
- The agreement must be fair and equitable for both parties
- The relationship should be built to last and not subject to early termination if mutually agreed targets are achieved
- There should be an understanding that it is going to be a long term relationship where each party will make an investment in the joint success

Relationships which are built on strong foundations of mutual respect and

alignment of interests can last a long time and be very effective. I had a number of distributors that stayed with me through three different businesses over a period of 15 years. I spent considerable time at the start of each agreement working with the distributor to bring in the first sales and to ensure that those customer references were positive. Once the distributor could see that the effort they were making was resulting in a deal flow, I could leave them to continue. However I had to make sure our support staff understood that they weren't our customer but our partner. We needed to see them as an extension of our own business and treat them like they were part of our family. The underlying premise was that we only made money only if they made money.

Not all distributors will work out. The risk you face is the loss of opportunity. It takes a long time to find the right one and even longer to make them effective. It is worth doing the homework up front to give yourself the highest chance of success you can.

PART THREE: STRUCTURE

“While the growth potential of the firm is determined at the product/market interface, the extent to which that potential is realised is determined by the management team. Thus capability is critical in executing the growth potential. Few organisations are however able to put the right mix of talent, experience and energy together to achieve even nominal levels of growth.”

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STEADY GROWTH

Few business owners appreciate the challenges of high growth

We all admire those entrepreneurs who can grow a business rapidly. Not only do they have to pick the right market but they have to put together a structure that keeps the firm on an even keel as it expands. The BRW Fast 100, however, demonstrates that few can retain a high level of growth over more than a couple of years. The problem is not just finding more customers; it is managing the exponential complexity of an integrated business.

I recall reviewing a budget projection for one of my businesses where we were examining the cost of recruitment. The recruitment cost seemed somewhat low. When I queried the underlying assumptions I was told that it represented the cost of recruiting an additional 20 staff, a 40% growth. However the numbers did not take into account that, of the current 50 staff, we had replaced 12 in the last year. Some had moved interstate with partners, some had gone back to full time education and a couple had taken maternity leave. In fact we had actually only dismissed two for poor performance.

When you look at average retention rates, you can expect some percentage of the employees to leave, not because they did not perform well, but because they have personal and family plans that might take them on another path. Thus recruitment and training in a high growth business becomes a real challenge. If you are growing at 100% and replacing 20%, you are recruiting 150% of those that are left at the end of the next year. Now add to that the cost of training and the impact on the productivity of the remaining staff who have to work with large numbers of new employees.

If you think that is a daunting task, work out the infrastructure that you need to support them. Accommodation comes in discrete sizes, so when you run out of space you can't simply add enough space for one more person, you might only be able to acquire space in blocks able to accommodate 10 or 20 staff. At

one stage I ended up with three separate offices in Northampton in England as we kept growing out of space. Since I could not predict the growth further than about 6 months ahead I was not prepared to invest in too much extra space, thus I ended up in a completely sub-optimal spread of staff. I had the same problem with the phone system. They came in discrete sizes, up to 12, up to 64 and up to 128 extensions. However when you moved up to the next, all your investment in the prior system was wasted and you started again. Other infrastructure costs will include computers, desks, meeting rooms, storage space and so on.

Quality often suffers as firms grow quickly. Staff are recruited too quickly, job descriptions are loose, reporting lines are blurred, performance metrics are ill conceived and systems for dealing with complaints are poorly established. People simply haven't got the time to figure out how to work together. Often one part of the business does not know what another part is doing.

By far the biggest problem is financing the growth. Very few business are able to fund the growth through internally generated funds. When you consider the costs that are incurred in recruitment, training time, accommodation, computers and supervision, few firms are generating the level of profit margins that can cope with more than a 15% growth rate. For most fast growth firms, external funding is an imperative. Even if some of the investment is in equipment, inventory and buildings, only a portion of that investment is going to be covered by traditional asset financing. What can't be covered by internally generated funds is then going to have to be sourced from public or private investors. That activity will also take senior executive time away from running the business. Cash management is probably the most critical activity for the high growth emerging firm.

So how do you cope? Clearly management of cash is critical and using it sparingly is the key. Where possible you should hold onto the cash by using alternatives that spread the cost into future periods. Thus outsourcing or using consultants rather than incurring recruitment and training costs can avoid large up-front cash outflows. Look at how rental or leasing might defer cash outflows. Build in deposits and stage payments into contracts rather than receiving all the payment at the end of a project. Review your payment terms for debtors and creditors to ensure you are taking maximum use of available terms.

Simulate your growth projections so that the costs can be forecast as much as possible. Don't leave it too late to seek out both asset financing and private equity financing. Start the process as soon as possible and keep the contacts open

for when you need additional finance. Make sure you can stand up to a rigorous due diligence of your financial and compliance systems. Any risk issues found in those areas will kill off any financing deal.

Fast growth can be managed but only if you understand all its facets as every part of the business is going to be put under strain. Take the time to project the impact and start early building systems that will allow you to cope.

SUSTAINABLE GROWTH

Build a management team which can deliver sustainable growth

In venture capital circles they always say that they would rather back an A team with a B product than a B team with an A product. If you think of the risks that the VC firms take on and the levels of uncertainty they confront in emerging markets, it becomes very obvious why. They need a team which can cope with a rapidly changing competitive landscape. Going into a deal, they can't be sure how the market will emerge, what other firms will enter the market and what the regulatory and economic situation will be several years hence. Thus, they look for a management team which can cope with such an uncertain future.

In many ways, this is the lesson for high growth entrepreneurs as well. It is not sufficient to have a great product or, even, a significant competitive advantage. While good products are key to growth, they don't solve all the problems of growth. In the end, you really need to tap into a wide array of good quality management experience to build an evolving business. Sometimes, it is only by having the scars of prior campaigns that we know what is likely to happen and what we need to put in place to manage our future.

What is very clear from the research on theories of growth, is that the growing firm will pass through a number of major and disruptive transitions. If you haven't been there before, you will simply be on a journey of surprise and discovery, coping as you go but mostly doing things too little and too late. It is important, therefore, to bring into your management team people who have experience of business life at several times your size, or have experience in the market environment you are trying to evolve into. They can then ensure that the foundations for that growth in terms of infrastructure, channels, networks and relationship are put in place early enough to be effective. If you can't afford to have them as permanent member of your management team, then think about hiring them as part time consultants or put them on a board of advisors.

Take time out to create a model of what your business might look like at different stages of growth. Then identify the management roles that will be

needed at that point and the experience, qualifications and contacts which the ideal candidate would have. To what extent do you have those people now and, if you don't, what does this mean for the current management team members? Some of your current management team may simply be not up to the task. How will you handle that problem? What impact will it have on your business if you are not able to fill an essential role?

You are only protecting your future by undertaking this type of analysis. There are long lead times for getting the right people on board and so the planning should start as soon as possible. Don't let hope be your growth strategy.

PROJECT HIGH GROWTH

Project your growth at 100% pa – can you manage it?

There are times when you have to see it to believe it. Try this exercise out – project the growth of your business at 100% per annum and see what breaks. By that I mean, find out what you have to do to fuel such growth and then see if you have the right structure and resources in your business to support such an endeavor. What you will discover is that there are a whole lot of past decisions and commitments you have made which will make such a growth rate near impossible.

What we always forget in running a successful growing business is that we need to have a lot of infrastructure to support the higher levels of activity. Unfortunately, such resources come in big lumps and they are simply not linear. Even worse, most of them have to be paid for in advance of when you get to use them so funding becomes a major impediment to growth.

New manufacturing plants take a long time to design, gain building and environmental approvals, build and commission. New office accommodation needs to be sourced, leased and fitted out. If you have selected, implemented and bedded in a new enterprise application you will know just how long and disruptive that process takes. Basically you need a long planning horizon for major infrastructure. But what about the people?

Imagine that you are growing at 100% per annum but that you only retain staff, on average, for 5 years. Thus 20% of your staff need to be replaced each year. This shows you need to recruit 120% of the staff each year. If you then assume it takes about 3 months for a new staff member to become productive, you have to back off a further three months in the recruitment cycle. Once again, funding becomes a serious issue in growth. You not only have to find and fund new recruits for 3 months before they pay their way but you will have the costs of advertising, interviewing and selecting them to bear.

The exercise of rapid growth is an important one for business owners to undertake, not because they anticipate growing at such rates, but because it

teaches you a lot about how the business needs to develop over time to cope with increasing volumes of business. It helps identify growth constraints and provides an early warning system for long lead time decisions which you might want to begin planning for. You will discover that management roles have to change, organization structure will need to be adapted to new volumes and that even basic considerations of what products and services you sell will be questioned.

Growth scenarios are a valuable tool for planning as they expose underlying assumptions, throw up business constraints and help you confront core problems. While 100% growth is normally unrealistic, some companies do achieve very high growth rates, even if only for limited periods. Understanding the impact of growth on your business, whether it be 10% , 50% or 100% is even critical to business survival. There are countless highly profitable growth businesses which have failed because they did not adequately understand the changes their business would need to go through to successfully meet the growth needs.

ASK YOUR EMPLOYEES

Ask your employees what business are you in and what problems you solve?

If you think you have a firm grasp on what your business does, try this exercise. Ask your employees to tell you what business you are in and what problems you solve. You may think that this would be a waste of time but I can assure you that you will get some surprises. I have never yet undertaken a business review without discovering that even the most senior of management cannot simply tell me what the business does, who their customers are or what problems they solve.

Often you will find that people at lower levels of the business organization don't have a very good grasp on what problems the business solves or who their customers are. What is more shocking is to discover that many senior managers cannot explain in a few sentences what the business does. They will ramble on about product features and functions and give you broad mission and vision statements that sound like every other business. You are left wondering how they make decisions when they have such a poor understanding of their own marketplace.

I am especially interested in growth potential so I am seeking not just an explanation of what they do but what they do really well. I want to know where their competitive advantage is and what makes them unique. I want to know what problems they solve where they are the best available solution or where they sell where they get low resistance to price increases. I am looking for a tight definition of their ideal customer to see if their marketing is tightly focused. I review their research and development to find out if they are developing products to meet unmet needs or to open up new markets where high growth can be achieved. I am no longer surprised when I discover that even the most senior managers cannot clearly explain what the company does best or who its ideal customer is.

So as an exercise, start with something simple – ask your staff what you do and who you do it for. What you will discover is that most of them do not have a clear picture of what you do. Many will know but will be unable to succinctly define the problems or the customers. That being the case, consider the implications for your business. Every day people throughout your business are making decisions.

Every decision is some way commits your business resources. If these decisions, both large and small, are being made without a very clear picture of what business you are in – or should be in - you are wasting time and opportunity.

If you seriously want to pursue a growth strategy, you must start by making sure everyone agrees where you are going. Understanding what you do and who you do it for is very basic. Deciding on what you do best, who you need to target and how to exploit that opportunity is fundamental to a growth strategy and you need to take everyone along the journey. To support a growth strategy everyone has to be on the same page on the same book.

SCALE UP

How well could you scale up?

If you want to test out your growth potential then simply ask yourself whether you have the ability to significantly scale your operations. Scalability is not simply selling more into a large marketplace, it requires you to scale up every part of your business from procurement through conversion to final product sales and support. You have to ensure that, at every increment in size, you have the capability and capacity to meet volume needs across every part of the enterprise.

Don't get fooled by the hype of the sales staff who tell you that the market is huge and that they can bring the deals in. In the end, it gets down to a very deliberate plan for closing deal by deal. Remember if it was that easy, anyone could do it. The fact is that sustained growth is incredibly difficult. Not only do you have to bring in the low hanging fruit but you must then work deeper and deeper into the marginal sales where each successful deal takes more effort. Without a relatively sophisticated sales and marketing plan, it is highly unlikely that you will make your growth targets. This becomes even more difficult in markets which are growing at a slower rate than your own growth plans, because now you have to increase your market share by taking business off your competitors. Don't underestimate the amount of work and skill needed to do that.

Even if you can bring in the sales, the rest of the organisation has to be able to support those sales. If you think of the complexity of most supply chains, you can see numerous activities which must be coordinated to get product out the door. Also remember that your suppliers need to be able to match your increasing procurement requirement and your distribution channels need to be able to absorb your increased outputs.

What you need to do is to review every part of your operations to examine the impediments to scaled up operations. In some cases this will mean changing the way you procure, manufacture and ship. You might end up changing your market interface to establish new channels to market. You almost certainly will have recruitment and training challenges, especially in periods of high employment.

But even in times when unemployment is high, you still need to find the right staff. If your skilled worker needs are in areas of high demand, you might need to look at outsourcing or sourcing some work from overseas.

Basically if you want to pursue aggressive growth, you need to work out how you are going to do it. You can't leave this to the last minute as many features of capability and capacity acquisition require long lead times. Beware of growth which comes from doing more things rather than doing the same thing more times. Too many companies have stalled their growth by spreading themselves over too many markets only to find that they end of doing none well. The easiest path to sustained growth is by doing a few things very well and doing them more often.

VALUES

Promote strong values

Have you given much thought to how much time it takes for someone to understand how your business works, the way you want them to deal with everyday tasks and how you expect them to cope with exceptions. The fact is that most organisations do a really bad job of induction. New staff are thrown in the deep end and are expected to cope. No wonder we spend so much time looking over the shoulders of new staff and checking up on them. If you wanted an excuse for micro-management, this is a great start.

Now consider what it must be like for the business which is growing at 20% or 40% per annum. Not only are they in a constant round of interviews and selections but they also have to replace those people who leave. Hard won knowledge of the business walks out the door and novices walk in – what a disaster. The business owner is pedalling fast just to cope with the changes to their organisation as it grows; new customers, new products, new distribution channels, upgrading systems and processes and finding the finance to fuel the engine. It doesn't leave a lot of time to be checking up on all the new people.

Of course, you would hope that good performance setting and monitoring systems are in place. Staff will have well thought out job descriptions so that you do know basically what they are up to but, even so, you are creating new types of positions as you grow so that alone is a never ending demand on your time. But there is only so much you can document. There are always going to be exceptions and someone has to deal with them. If the person at the coal face isn't able to do so, it is simply going to use up a supervisor's time or the time of the old hands. What if you could empower staff to make more of these exceptional decisions, wouldn't your business be more productive?

While this may seem simplistic – the answer lies in ensuring that there are strong values in the organisation. If the business has a culture which is well embedded in its day to day activities, many decisions can be made based on those values. Thus if 'the customer is always right', or 'quality in everything we do' are the norms of behaviour and you indicate that decisions made on that basis are encouraged and supported by management, many day to day decisions will look

after themselves. It is only the unusual problem which has to be referred upwards.

Effective organisations drive growth by being productive. If you need to have multiple people making every decision, you are seriously inhibiting your productivity. By pushing down decision making through the use of well defined and supported values, you are not only empowering staff and making their working time more meaningful, you are supporting growth. New staff need to be inducted into the way they undertake their tasks but also need to know how to cope with problems, issues and events which are not documented that require a choice of solutions. When they have a thorough understanding of the corporate values, many of those choices are very clear to them and they can proceed to make a decision with the knowledge that they will make the right choice for the organisation.

BENCHMARKING

Join a benchmarking study

How well is your business performing compared to your competitors or to similar firms around the country, or even globally? Just think what you could learn about your own business if you could find out what you are doing well and where you are not doing as well as the best, or even the average firm. The way to find out – join a benchmarking study.

The objective behind benchmarking studies is to allow the participants the opportunity of comparing their own performance over a large number of business metrics with similar firms or with similar activities. If you are a web design firm, you could join with others doing the same service and see how you are performing. You can also join a study into just one aspect of your business, say human resources, and then find out over a very large number of different companies how you are performing.

Often we don't know what we are doing well or we think we are, but have no data to verify our views. Imagine your surprise if you thought you were doing really well on a specific activity to find out that you were in the bottom 10% of your sector. Or the reward to your staff to find out they are doing so well in one task that they are in a leadership position. Apart from the certainty which comes from finding out what you are doing well and not so well, you really want to find out where you can improve and what level of improvement is possible. Once you can pinpoint an area which has some room for improvement, you can set about working out what you can do to lift your productivity.

Benchmarking also plays an important part in an acquisitions strategy. Once we have our own benchmarking data, we can use this to examine target firms to see where we can quickly bring them up to our level of performance. If there are clear indications of areas for improvement in the target company based on where they perform on the benchmark studies, we can gain a greater return on an acquisition investment.

There are numerous benchmarking studies available. Many are conducted by industry associations for their own members. Some are hosted by University

research groups and there are a number of commercial programs for specific sectors. It just takes a little bit of research to find those which are relevant to your own business. You might also think about undertaking some on an informal basis with competitors or with firms similar to yours across the country.

The greatest contribution of benchmarking to any firm is the discipline it introduces through the systematic and periodic measurement of activity levels. It is very difficult to improve performance if you have no metric to indicate where you stand and where your performance is varying. Once you start examining your performance on a regular basis, you will discover insights into what you are doing well and where you are falling down. Benchmarking with other firms often provides the discipline to do the job properly.

ACTIVITY LEVELS

Plan a management team at different levels of activity

Have you given any thought to what your business might look like at two or five times its current size. It is an exercise well worth undertaking because it provides insights into how the business will need to develop as it goes through different organisational barriers. Rather than manage by crisis, you might think about how you can evolve the business over time to meet the challenges which face a larger enterprise.

One of the biggest challenges of all is the management team. Many emerging businesses start out with friends and family participating in the business and then new recruits are often found in the personal networks of the founders. But a business which employs 5 people cannot be managed in the same way as one of 30 or 100 employees. At some point, you do need to build a professional organisation and the people who manage it need to the qualifications, skills and experience to do the job properly. You simply can't afford to carry people who are not up to the task. Too many livelihoods will depend on you doing the job properly.

A task which is worth undertaking is to map out the management team at different levels of activity. There seems to be a natural span of control which governs the way in which organisations develop. One rule of thumb suggests that no one person should supervise more than 6 people. Another is that you need to develop a full time administrative management level from about a size of 30 employees. We typically outsource specialist skills while we are small but bring them in-house once we can justify a full time member of staff. By looking at activity levels, we can estimate the number and type of management staff we will need as we grow the business. Once we have the business structures mapped out, we should start planning for how we are going to find the right people to fill the new jobs. We also need to decide if the people we have are going to be up to the new levels of responsibility.

One of the difficulties facing emerging business owners who have not worked

in larger companies is to imagine what skills and capabilities are going to be needed as the business grows. It is always worth exploring this issue with business advisors who have had larger company experience. You should also seriously consider hiring someone at a senior level who has larger company experience. An experienced manager from a larger company will often have worked with more sophisticated internal systems and can guide you in the right direction so that you evolve an effective organisation rather than simply get there through trial and error.

Organisational changes are painful, disruptive and stressful on most of the staff. With a longer term plan in place, you can make the changes gradually and staff can be informed of the strategy which is being followed. Having a plan and thinking through the changes which you need will dramatically improve the outcome.

PLANNING

Top down or bottom up planning – which is better?

I recall one corporate planning meeting I attended where the European VP presented budget numbers which fell well short of what the Chairman wanted. After a short private discussion with the Chairman, the European VP presented new numbers in line with the Chairman's requirements. Not only was it obvious that he had been bullied into the increased forecast but it was clear he had no faith in his ability to meet the revised targets. I can only imagine the reception he was going to receive when he returned to his office and told his managers what they were expected to achieve. Of course, if they had no faith in the numbers, they would simply ignore them. This was when I realised that top-down planning did have its limitations.

There has been a long running discussion in corporate circles about the benefits of top-down or bottom up planning. Clearly, top management see the big picture and have an overall strategy for the business and they can see patterns and relationships which may not be obvious from the level of operations management. At the same time, field operations have to deliver the numbers and can build up revenue and costs brick by brick to see what they could achieve. However, they may end up taking the business in a sub-optimal direction by pushing the wrong products or taking the easy short term path.

So perhaps no right answer. But clearly a disconnect between the two is even worse than a single approach. Setting overall priorities, major strategies and key milestones is the province of top management but this should be opening stage of the planning process – not the end. Once the overall strategy and major assumptions are set down, the budgeting and planning process should ask field operations what is achievable. If there is a gap between these two views, more detailed analysis needs to be undertaken as to why. In the end, what you need is a consensus on where you are going and commitment and faith at all levels that you have a good shot at getting there.

We learn very little by simply projecting our current business trends. The breakthroughs in thinking and the creative developments in a business come from pushing the envelope to see what the possible might look like. When you ask

yourself what your business would look like at 5 times its size in a 3 to 5 year period, you will discover all sorts of insights into what products and services you should be selling, what structure your business should have and what people you need to make it work. It is not that you will implement such a plan but simply that it opens your mind to a new set of possibilities. Now take the best of those ideas and work them back into your current business strategy.

It is important to have big goals because they drive innovation and creativity, essential components of competitive advantage, but don't forget that you still have to go to work each day and make it all work.

OUTSOURCING

Look to outsourcing to increase productivity

The big end of town seems to wax and wane when it comes to out-sourcing. One year it is the next best thing and the following, it is off the agenda. I also recall not long ago when there were a wave of articles saying you should hold onto your core competency and only out-source those activities which weren't critical to your business. However, what is clear is that out-sourcing is now part of the corporate landscape and there are many companies and even countries who are the recipients of the work. Whatever your ideological or philosophical views of exporting jobs are, whether it is to the next town or next country, the business which has high growth potential needs to seriously consider how out-sourcing can assist their growth strategy.

High growth firms are constantly hitting constraints as they grow. Most of these are internal. They simply run out of puff. High growth is very demanding on cash and resources. Many of the resources needed are only available in large lumps like factories warehouses and accommodation and must be purchased well in advance of need. People need to be recruited and trained before they are productive. There is also a significant and growing work in progress funding which is needed. Rather than purchase resources, high growth firms need to see if they can out-source some of the activities so that they can reserve their funding capacity for those activities which are core or cannot be out-sourced easily.

Because so much has to be funded, another reason for out-sourcing is to move costs from fixed to variable. Rather than build a warehouse, it could be rented. To take this a little further, rather than operate a warehouse and incur the costs of equipment and employees, the entire operation could be out-sourced. This approach can be taken to any activity which has a high up-front fixed cost. The high growth firm needs to conserve as much cash as possible, out-sourcing transfers the funding problem to another organization.

We also should not forget that no firm is good at everything. There will be many activities which the firm takes on which will be sub-optimised because they are not part of their core capability. So for example, the firm might be better off having a debt collection service administer its credit rating and collection service

rather than undertake the work in-house. Any specialized activity which can be done better by another firm because it is their core strength or capability may generate a better outcome for the firm.

Lastly, don't forget that it may actually be cheaper to out-source. In any activity where economies of scale apply, those companies which undertake the higher volumes should be able to reduce their cost per transaction. If you have a number of activities where you do not have the volumes to operate efficiently, these should be considered for out-sourcing.

The justification for out-sourcing by high growth firms need not focus on reducing headcount, they need to use see it as a way to cope with the growth issues they face. This is one place where employees can see that out-sourcing can really help a business grow and prosper

UNIVERSITY RESEARCH

Are you tapping into research programs at universities

Sometimes it takes a real specialist to find a way to crack a difficult problem. We tend to forget that we have a lot of these people in abundance across our research and educational institutions and that they love to have a go at something challenging. If you are able to find a way of working with these gifted academics, you might well end up creating a component of your product or service which is especially difficult to copy thus giving yourself a decided competitive advantage.

I was especially impressed with one small software company I met which had a problem with a scheduling application. They admitted that it was only a small part of their overall solution but it was a critical component. While they could have produced a basic solution, the lack of functionality would have undermined their entire product offering. They approached a local university maths department to see if anyone could help them. The academics rose to the challenge and produced a world class solution. It made all the difference to their solution and allowed them to refocus their marketing effort to concentrate where the new solution gave them a significant competitive advantage.

Universities and research institutions have their own way of doing business, or lack of business more often. Their motivations are directed more towards academic research publications and peer respect than commercial outcomes thus finding the right approach can be problematic. But if you don't ask, you don't get. There might be fees involved or a royalty but sometimes access to research data or research funding will win you more points. What you need to be is open to a creative way of working together for mutual benefit. The bottom line is that they need problems to work on and you need solutions, you just have to find common ground.

Breakthrough thinking can come in many forms. Don't limit yourself to thinking that Universities can only help with research problems. I have been involved in MBA projects in inventory management, marketing, business strategy, product commercialisation and exporting. Sometimes the breakthrough comes from answering questions from someone who is trying to understand your

business. Other times, they will generate numerous ideas, seemingly at random, to open up a new avenue of thinking. Many classes have a need for outside sponsors for projects and this is a great way to bring some smart people into your business to look at a specific situation.

You do, however, need to work within their framework. Students work in semesters on specific subjects and that constrains when they can work and what they can work on. Researchers need to work on something which they can publish or which will contribute to their funding. Some academics will work with you just for the experience. It takes time to build a relationship but well worth the effort. If you are flexible and prepared to meet them halfway, it is a great resource to help you generate a competitive advantage.

DIRECTORS

Do you have the right Board?

Boards of Directors don't work for everyone. Some people need them, some have to have them due to external investment conditions and others should steer clear of them. Too many businesses have the wrong makeup in their Board and others have Boards but don't know how to productively use them. If you are going to have a Board, or if you must have one due to an agreement with investors, then you should create one which is good value for money.

We hear too often of Boards which are rubber stamps to the beck and call of the founder or major shareholder. Clearly, the Directors are getting their fees but the shareholders are not getting value for those fees. I have had Directors imposed on me by investors who didn't understand my business, failed to provide any useful insights and simply took up space. Those you can do without.

If you want a rubber stamp to satisfy an external investor, it is quite easy to build one but are you not being deceptive to your shareholders? Where are the insightful comments, industry knowledge, network connections and independent advice? Instead of wasting the money on a useless Board, why not take the opportunity of building a Board which can help you be more successful.

Boards do have responsibilities imposed on them through legislation and regulations but they can be much more useful than just undertaking governance and reporting back to the shareholders. A Board should be constructed so that it provides input into the longer term strategy of the business, brings skills and knowledge which are difficult to acquire or provides insight into challenges facing the business. You want a Board which works with you to build the business and not one which is so risk averse that it stifles initiative and growth.

If you get to choose who is on your Board, take the opportunity of working out what experience you want to bring to the business. If a Board member is imposed upon you by an investor, discuss with the investor the type of person who could satisfy the oversight needs of the investor but also contribute to the success of the business. Since you are going to pay the Director's fee anyway, at least you should look to get something for your fee other than a warm chair.

You need to construct a Board which not only can work together for the common good but also encompasses the knowledge and skills which you need to tap into. Don't confuse payment for professional advice with the role of a Board member. Lawyers and accountants can be hired but wisdom usually can't be. Many experienced industry professionals like to have a mentoring role but you need to offer them more than just a Director's fee. They want to be part of something interesting and feel they are making a contribution. You should be looking for such individuals for your Board, people who want to make a difference but you need to listen to them and be prepared to account for your actions.

BUSINESS PLANS

Why do a business plan?

Many SME business owners think that a business plan is not worth doing. They argue that it is out of date by the time it is finished because the business environment within which they operate is always changing. I suspect most people who evaluate business plans would agree that it needs to be continually revised as circumstances change. If that is the case why would you bother to develop a business plan?

Can you imagine building a house without a plan or finding your way to a new location without directions? If you say no – then why would you imagine you can manage the complexities of a business without having a plan for the business? A business has many parts that must work together both at a point in time and over time. The business plan is both the process of defining how all the parts work together and the statement of what will happen to those parts as the business develops over time.

Describing the business as it exists can be a very enlightening exercise. You might try some simple questions about who, what, where and why. Try this exercise on your customer list. Can you go beyond a simple list to an analysis of why they are your customer? Are you able to classify them by type, product or service use, type of need or problem being solved, size, location, level of contact or interaction and how important you are to them and they are to you? How much business have they done with you over time and why? The more you understand about your customers and their interaction with your business, the more you will be able to predict your future business from them and prospects like them.

A similar exercise should be undertaken across all aspects of the business. For example, when you delve into your work in progress and inventory you can see where you are investing working capital and can question whether those levels of investment are appropriate. You should also lay out your organisation chart and examine the reporting responsibilities of each level of management. Do you have an organisation structure that is appropriate for the size and complexity and geographical spread of the organisation?

Describing the business as it currently exists provides you with a chance to get

to know your business better and to review how all the parts fit together. Most business owners will discover things about their business that they weren't aware of. In some cases, you will discover things that you need to fix as a matter of urgency. A successful entrepreneur understands how the business operates and how each part interacts with each other. It is the efficient interdependency of the parts that allows a business to operate efficiently.

Understanding these interdependencies is critical when you project what the business will look like over the coming months and years. You need to be able to model the various resource flows through the business. How long does it take to work out what to order, to place the order, to receive the goods and to pay for them? How long does it take to identify a prospect, process their interest through to an order, make and/or ship the product and receive the cash? How long does it take to recruit, train and make a new employee effective? The business plan is built on numerous assumptions. Are you able to identify these and then validate them?

The written business plan should be able to show that you really understand how your business operates. It should be able to show that you understand how all the various parts of the business interact over time. It should also show through a risk analysis where the business is most vulnerable. Part of your task as the business owner is to show how you would deal with the various scenarios that might confront the business. For example, what would happen if the revenue declined by 50% or grew by 50%?

Many people outside your business will require a business plan. Not because they believe that you will achieve the forecasts set out in the business plan but because they want to see that you understand how your business operates. Private equity investors use the business plan as a screening criterion for funding. They want to know that the entrepreneur is able to clearly set out what the business is in a well argued formal document. If the entrepreneur doesn't understand the business well enough to be able to describe it in a business plan, what confidence can the investors have that the entrepreneur understands how to manage the risks in the business?

Bankers want to see a business plan before they lend money. They will be especially interested in the financial ratios so that they can see if the business is financially viable and is able to cope with both growth and decline in business levels.

However the main beneficiary of a business plan is you. The exercise of undertaking a business plan will teach you a lot about your business. Don't let someone else do it for you. This is one time when you have to own the process. If other people are providing data, make sure you understand the reliability of the numbers and the assumptions behind them. Few successful businesses make it without putting in the effort of preparing a business plan – give yourself the best chance you can, join the club.

FOUNDATIONS

Want to grow the business – get the foundation right

The business you have today will not look the same when you have 5 times the number of employees and/or 5 times the revenue. It is almost inevitable that you are going to have to change the way you do business to manage the increased complexity of a larger business. Different stages of grow will require you to change fundamental aspects of your business. Don't put your business at risk by trying to make these decisions on the fly. Anticipate what the business will look like in the future and work backwards to the business you have today. Now build the right foundation for that growth You will be surprised at what you discover about yourself, your structure and even your marketplace.

Entrepreneurs who have grown a business from a start-up will tell you of the transitions that they had to go through as the business grew. I discovered major transition points in my own business at 12, 50 and 100 staff. The business also went through a major organisational crisis when it undertook an acquisition 12,000 kilometres away. Many of the problems associated with growing the business could have been predicted if our management team had only undertaken a simple scalability exercise. What would the business have looked like at different stages of growth?

It is a relatively simple exercise. Complexity increases dramatically with the volume of staff, customers, products and locations. In order to achieve 5 times the level of business you have right now, most of these will increase significantly. What is not so obvious to most entrepreneurs is that the business will need to be managed differently with each additional level of complexity. You can learn a lot about how your business will need to adapt over time by setting out what the business should look like at each level of complexity.

Almost without exception, small businesses face a crisis of management as they grow. In the start up phase, the entrepreneur is able to drive the business through sheer energy, passion and vision. He or she knows everyone and the staff are motivated because they are part of the grand adventure. As the firm adds staff, new people come into the business that were not present when the grand vision was created and their motivations and needs are likely to be different.

They may see it more as a job than a mission. They have different needs and thus management styles have to change. At the same time, the growth brings with it specialisation of tasks and more formal organisational structures. Reporting lines become more rigid, job descriptions become the norm rather than the exception and performance targets and monitoring is introduced. Soon there is a new layer of management between the CEO and the operations. What was once a project has now turned into a real business.

As the business grows further, communication becomes increasingly formalised as communication lines become longer. The left hand no longer knows what the right hand is doing. Customer service quality falls as new customers no longer have the advantage of personal links with the founders. Problems escalate with the second location and daily face to face communication is not physically possible. External shareholders and/or external Directors force more transparent decision making and thus the entrepreneur can no longer make decisions on the fly. Larger numbers of staff, customers and other stakeholders now depend on the business for their livelihood. Many entrepreneurs simply are not able to make the transition or don't want to.

As you can see there are important strategic insights that can be gained from undertaking a scalability exercise. You will almost certainly discover that you have the wrong organisational structure. What will surprise you is that you will also discover that some of your best staff are unlikely to make the transition. They may lack the skill, personality, work ethic or experience to work effectively in a more complex situation. This is very confronting but it is better to discover it early than have the disruption of having to replace loyal staff when it is really too late. With time on your side, you can undertake retraining, change job responsibilities or transition them out of the business.

You will almost certainly discover that your data collection and reporting systems are inadequate for a more complex and larger business. IT systems take a long time to choose, implement and bed down. Understanding the system requirements that you will need in the future may make some of the IT decisions you make today different. The same may well apply to your distribution channels, alliance partners, manufacturing processes, professional advisors and so on.

Look at what will constrain your business as it grows? Are there things you can do now to overcome those? Can you change the structure of the firm now so that the transitions are easier to manage? Don't let hope be your strategic plan.

Sit down and work out what you have to do to grow and how you are going to proactively manage the process.

PART FOUR: RISK MANAGEMENT

“Growth is rarely steady or predictable. Apart from internal disruptions, we also have to cope with external events over which we have no control. The better firms undertake risk analysis to ensure that they have plans in place to mitigate damaging effects. They monitor both inside and outside trends and events to predict as much as possible the impact on their business and have structures and policies to bring to bear when trends turn negative. The effective management team is always ready to act in a purposeful manner.”

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TARGETS

Build a plan and set targets

Anyone can reach a destination if they don't care where they end up, but I wouldn't recommend this as a business strategy. The whole purpose of planning is to decide where you want to get to and then set out a strategy to get there. The strategy then determines intermediate targets and tactics. While we all accept that plans are out of date as soon as they are written, the understanding we get of our own operations through the process is invaluable. When something goes off track we have an intimate knowledge of the impact on our business.

Businesses are a finely tuned machines. Each part connects to other parts and any disruption in one part reverberates across the business leaving a trail of problems. Thus understanding the interconnections is vital for setting growth targets as well as risk management. It is hard to imagine how one could increase output by 50% without also considering how the business will fund, recruit and train all the new employees. If output increases then so do inputs. To what extent then have we considered the impact on supplier capacity, in bound shipment, quality inspection, storage, conversion, finished goods handling and outbound shipment.

Perhaps the greatest benefit of a systematic planning process is this understanding of interconnectedness. It encourages us to drill down deeper and to put more effort into understanding our planning assumptions. By working through the interactions of each activity on those that precede it and those that follow it, we can see how different assumptions impact our ability to meet our targets. Better planning requires us to be better informed about our own operations as well as to put more effort into building plans on evidence rather than conjecture. We need to be sensitive to interactions between different parts of the business as few companies have such excess capacity that they can take the pressure of growth for granted. Without working through the intimate details of how the business will manage the changes, the outcome is likely to be a disaster.

The discipline of planning; target setting, performance monitoring and contingency planning, needs to be embedded into the culture of the business

if it is to shoot for growth. Furthermore, this has to be taken down through the organisation. Top down planning by itself does not build confidence nor commitment to performance targets. Too often aggregate numbers are imposed by the bosses without getting the agreement of those who are at the coal face. The result is a disconnect between where the company is supposed to be to where it will actually end up. So planning, target setting, commitment and performance monitoring has to be embraced at all levels of the organisation. The process of building plans needs to be iterative, taking into account not only ambitious targets but also a realistic assessment of what is probable.

In the end it comes down to a basic philosophy. Do we want to be hostage to our environment, simply reacting to changes going on around us, or do we want to be proactive and take control of our future.

ESSENTIAL INGREDIENT

You own the solution when you own the essential ingredient

Long term growth only occurs when you build a sustainable competitive advantage. Not only do you need to be better than your competitors, you actually need to be smarter. The smart business owner takes a holistic approach to creating barriers to entry to their competitors. They work on all aspects of their supply chain to ensure that, wherever possible, they can construct competitive advantages or competitor blocking strategies in every phase of their business. One of the most successful strategies is to control the essential ingredient which creates the customer solution.

Every customer solution will have within it some combination of ingredients, components and/or knowledge which the business must source from others. By combining their own knowledge, processes and in-house constructed components, they create a solution to the customer's problem. In a situation where a unique ingredient, component or piece of knowledge is critical to the customer solution, gaining control of that element gives the business a significant competitive advantage. Other businesses competing for the same customer transaction will be forced to put forward a less than optimal solution.

The classic barriers to entry in this respect are the traditional intellectual property sources; patents, licences, copyright, trademarks and brands. These have the advantage of protection under the law and can be readily defended. But there are many other components in any solution which can be just as effective if the business can lock down a unique source of supply, either for the whole market or just for the geography or sector which is the target market. Thus an exclusive supply contract, outsourcing manufacturing for your own designs, buying the supplier or buying up the available inventory can be just as effective.

We often overlook knowledge as a source of supply which can be denied to our competitors but if you contract in the available experts or if you employ them, you effectively own the customer solution. You should also not overlook building deep expertise as a competitive blocking strategy. By building a team which has the reputation of being the best to solve a specific complex problem, you are

effectively creating a barrier to entry. This is especially effective if the problem is very complex and the market is relatively small. By taking a leadership position you can effectively take out enough of the market demand to make the remaining market too small to encourage competition.

The blocking process needs to start with the customer problem. What can you do to provide the best solution and what ingredients, components and knowledge elements can you control which will give you an effective advantage? While you may not have it now, start looking for a new solution which will allow you to create such an advantage. One approach might be to look at new products and services in similar markets overseas and acquire local rights to the products.

If done right, controlling the essential ingredient of the customer solution can be a very effective competitive weapon.

ASSUMPTIONS

Declare the assumptions underlying your planning and test them

It is widely acknowledged that business plans are out-of-date as soon as they are written and yet we still persist on doing them and need them for bank loans and raising equity finance. Perhaps we should simply accept that they help us understand a lot about the integrated nature of a business operation and leave it at that but we should not undervalue what it tells us about what is going on around us. For any business plan to have meaning, it needs to set out a basic set of assumptions about its internal and external environment. The exercise of uncovering and analysing those underlying assumptions is one of the most useful outcomes of building the business plan.

Think of the impact on your business of some basic trends. Some are very slow such as population growth, demographic movements, life expectancy, infrastructure changes, global warming and so on, but these will impact your business over a ten to twenty year period. Then there are abrupt changes such as elections, man made and natural disasters, and competitor bankruptcy which will impact you suddenly. You also need to give some thought to aspects of your business over which you have no control such as legislative changes on working conditions, health and safety, input cost changes, currency and interest rate movements, etc. Even after you have dealt with all those, you still need to have estimates for elements of your business which you can partially influence such as employee retention rates, general salary increases, office rental rates and so on.

Even small changes in some of these items can have a major impact on your business. It is not sufficient to throw them all in a spreadsheet and pretend that your job is done once you have generated your plans for the following year. The major benefit comes from testing out different sets of assumptions to identify just how sensitive your business is to different scenarios. The more sensitive the business is, the more analysis you need to do of the underlying factor and the more work you need to do to mitigate the effect or take advantage of the opportunity presented.

What you need to do is to take a range of possible, or more pragmatically, probable outcomes. Thus while you might look at the impact of a borrowing rate of 20%, it is sufficient to look at a range of 5% to 8% around the current rate. You could examine retention rates of 50% but if your normal experience is 80%, then a rate of 70% is probably sufficient. Sales might be growing at 5% but it would be a useful exercise to look at 8% to 10%. While you need to be very sensitive to negative impacts and build contingency plans for those, watch out for the opportunities. What changes can you take advantage of? What would you need to have in place to react quickly to a positive change? The business plan activity is your opportunity to protect your business as well as improve it.

TRENDS

Use early warning systems to monitor potential problems

If we could only know what was going to happen tomorrow, next week and next year, business would be a dream, but the reality is that we have to guess or forecast as best we can and then just get on with life. I have always been amused at weather forecasters who predict a 10% chance of showers because they can never be wrong. While I am sure we could all do something similar, it would be nice to have a higher level of confidence in our business forecasts. This is where leading indicators play a part.

There are very few businesses that are not directly impacted by changes in the economy. Sometimes there is a direct relationship such as the impact of a downturn in building starts to building material suppliers while in others a less direct relationship exists or the impact is delayed. Thus a change in the rate of immigration will effect population growth which in turn impacts on spending in the supermarkets. By understanding the relationship of economic indicators to our own business, we can estimate the impact on our business at some point in the future, whether that be near term or several years away.

Closer to home, what you might call the product/market interface, we can expect there to be a relationship between marketing activities, sales and operations. Thus a lead generation project might result in sales in three months which in turn results in increased manufacturing activity. But what if we need to manufacture well in advance of sales. In that case, we need to look out far enough to see what activity is taking place which will provide indicators of future sales and then use the sales forecasts to drive current manufacturing activity. If we get the estimates wrong, we end up losing sales or incurring excessive inventory. Finding the right indicators and understanding their relationship to activity levels is critical.

Historical data can be a useful guide to activity levels, but we need to have systems in place which collect the data. We need to gather data on internal and external activity levels on a continual basis so that these can be used later to determine causal relationships. The objective of the analysis is to find those economic and business marketing activity items which correlate strongly with

lagged business commitments such as procurement, manufacturing, inventory levels and so on. These early warning systems then become fundamental planning tools which allow us to mitigate risks and exploit opportunities.

Once we have found these causal relationships we can set about exploiting them. Some are outside our control but we can still use them in planning our activity levels. Others we can influence, such as a lead generation or promotions campaign. We can review our anticipated level of operational activity and flex our marketing spend to increase or reduce the forecast level of sales. The key to reliable business planning is to understand these relationships.

POINT OF PURCHASE

Develop a monopoly position

Wouldn't it be nice if you had the market all to yourself. Imagine life without competitors. There are companies who have that luxury although many of them are state owned or regulated. Companies with unique solutions strongly protected by patents do tend to avoid competitors but few of us are in that fortunate position. For the vast majority of us, we need to live with the threat of competitors outmanoeuvring us everyday. What we need to do is to find some effective, but legal, techniques to limit or avoid competitors. One such techniques is what I call 'owning the point of purchase'.

Basically, if yours is the only store in town you effectively have a monopoly but most of us aren't in the retail store business. However, there is no reason not to ride on the back of such a store. What if yours is the only product in your category offered in that store – you too now have an effective monopoly. This latter technique is used to a greater or lesser extent by large numbers of consumer packaged goods manufacturers to own the point of purchase. If they can secure an agreement with the retail store to exclude their competitors, or maybe just place them away from the traffic, they have created a point of purchase advantage.

If you start with the most logical place where customers buy your product, you can begin working on a plan to gain greater influence over the purchase. In some cases, there will be little which you can do, but other times, you may have some influence over the products being offered. Where you can have some influence, perhaps by offering additional incentives to the owner of the purchase location, you gain greater control over your potential sales.

You need to list out all the different ways in which customers arrive at the purchase decision, then examine each one to see what opportunities you have to limit exposure to competitor offerings. Another possibility is to link your product or service to products or services which drive the main purchase decision. Thus a travel insurance product might be linked to a package holiday. While you don't control the choice of holiday package purchased, you might be able to have your travel insurance as the only one offered alongside the package. Few customers would be bothered to look elsewhere if the marginal cost was small compared to

the time it would take to look elsewhere.

We sometimes forget that customers incur product search and evaluation time and expenses in solving a problem or meeting a need. Those products which are easiest to find, are presented where they shop normally or are associated with another purchase which they are making are more likely to be purchased. Identifying the point of purchase of your product and those which are complementary to it is the starting point for identifying opportunities to have a greater influence over what is purchased. The ideal situation is to be the only solution and 'own the point of purchase'.

OWN THE OUTLET

Can you own the point of purchase

Any business which wants to pursue a growth strategy needs to find ways of developing and strengthening their competitive advantages. It is a superior competitive advantage which increases transaction velocity which in turn drives growth. You need to find ways to reduce the sales cycle, block or negate competition and make it easier for customers to choose your product over the competitors. The firm should be looking at as many ways as possible in which they can get an edge over their competitors. One such technique is what I call 'owning the point of purchase.

When you walk into a store looking to purchase an item, you are often faced with a range of choices, often from several vendors. You have the opportunity of comparing features and functions and, of course, price. But what would happen if you were faced with a range of products all with different features and at different price points but they were all from the same manufacturer or supplier? You could choose one or decide to go to another shop to continue your search. Chances are that many customers will choose from those available in the first store, providing they don't feel they are not overly compromising on price or functionality. The first store reduced your choice but will be successful most of the time in making the sale.

This concept of choice reduction is done all the time although we may not be aware of it. When you go to a brand store, you can only choose products of that brand. If there is only one hire car service at the airport, you are effectively forced to take that service. When you are only offered one contractor by your insurance company, you don't get to choose who undertakes your repair work.

Now turn this on its head, what do you need to do as the vendor – you need to own the point of purchase. Basically, you need to examine where your customer purchases and see if there is any way you can reduce the competition at that point. Alternatively, develop new points of purchase where you have greater influence over the options being made available to the customer. For example, an exclusive arrangement with a retail chain could be used to secure those outlets, you may be the only importer of a branded product or the only accessory product offered with

another major purchase.

This type of positioning can be very effective where the product you wish to sell is only a small increment to the major purchase. You might be able to arrange that yours is the only finance package offered from the vendor in a car sale or the only insurance coverage offered by the travel agent with a travel package. Where you can attach yourself alongside a major purchase, buyers typically don't waste time shopping around where the additional cost component is small.

The key to competitor blocking strategies is to put yourself in a position where you don't compete because you are the only product on offer. A very effective strategy if you can achieve it.

POINT OF SUPPLY

Can you lock down the only point of supply?

To drive growth in any business you need to find some point of difference which can give you a head start on the competition. You need a competitive advantage which is sufficiently important to your target market that you get the business rather than your competitors. Even better if you can establish some unique characteristic in your product or service which is directly related to solving the problem your customers have. The conventional answer is usually strong intellectual property position but not every business can create this advantage. However, a little more creative thinking might suggest that you try to gain control over an item of supply which is essential to the end-user solution. You then own the entire supply chain.

We tend to forget that there is an entire conversion process from ingredient, component or knowledge all the way through to a finished product or service. Every element in that supply chain is a potential point of control – if that element is essential to the final product or service. What you should look for is a situation where there is a unique, single sourced item which you can gain control over. If that element of input must be used to provide the end-user solution, then whoever controls that input controls the customer solution.

Most products and services are made up of numerous inputs where all the inputs are in sufficient supply and from multiple suppliers and therefore you cannot achieve control over the input situation. But this does not apply to every product and every service. The objective of this strategy is to look for situations where you can gain control. You may need to develop new solutions, or acquire them, in order to achieve this objective. You might start with the end-user product or service and work backwards or start with a unique supply source and work forwards.

In gaining control, you are seeking a situation where you can lock down the supply input either by buying the supplier or by signing an agreement whereby you are the only business that has access to it, perhaps for the specific application you sell. You might sign an agreement for a specific market or geography. There are many businesses which have gained considerable traction by being the only

distributor within a geography, especially for small population countries such as Australia, especially if the source is on the other side of the world where they have lots of markets to keep them busy.

There are a wide range of inputs where this model can be applied. Ingredients, components, software products, sub-assemblies or even finished products can all offer unique sales advantages. But don't forget information, knowledge, capacity, location or a rare skill as inputs. All of these can be used to create unique input situations in specific applications.

When you are seeking a sustainable competitive advantage, it pays to think outside the square and look across the entire supply chain to see where you can find a unique advantage. Supply inputs are often overlooked but should be given careful attention.

DECISION MAKING

Reducing delay, deferral or not purchasing

Transaction velocity is fundamental to any growth strategy. It is the length of time which a customer takes from the time of recognizing a need to acquiring a solution which is the most critical determinant of our ability to grow faster. When the prospective customer delays, hesitates or defers the decision to purchase, it materially impacts our revenue growth and our bottom line. We need to do everything we can to reduce the sales cycle time.

If you break the purchase experience down into a series of decisions and activities, you will notice that the customer has to go through a sequence of steps or stages to arrive at a decision to purchase. This process starts with a recognition of a problem or need. A lot of these situations are outside our control and happen independently of our influence, but some can be prompted. Our first task is to educate customers on the need or problem or to remind them of the need. Advertising, viral marketing, conferences, journal articles, public relations and so on do this task for us, but we must ensure we are getting to our target audience.

Having alerted our customer to the need to find a solution, our next task is to ensure that the customer can readily find us and our solution. I am continually amazed at how long it takes to find a specific item or service, get answers to questions and then identify somewhere where I can buy. Your task is to make it easy to find you, provide comprehensive information on availability, price, use, after-sales support and disposal. These days this can be done very effectively on your website, but make sure customers can actually find you through a variety of search questions. You also want to make sure that the right customers come to you and that you set their expectations correctly before they arrive at your door or on-line shopping store.

Have you ever been frustrated trying to buy something, whether it be in a shop or on-line. I find it amazing how difficult it is sometimes to hand over the money. The buying process should be straight forward and pleasant not an obstacle course that only the most patient or determined can survive. Finally, you want to make sure that the usage experience is a good one so that they come back again and tell all their friends to buy from you.

When you reduce your transaction velocity and increase your prospect conversion ratio, you improve your sales and marketing productivity and generate gross margins faster thus providing cash to fuel growth. You can help customers recognise a need and help them get an effective solution in a time efficient manner. You need to make it easier for customers to find you, have their questions answered, select the right product or service and then have a good experience buying and using. By doing so you will stand out from the crowd. Anything less and you open the door to your competitor.

COMPETITORS

Do you know what your competitor's strengths and weaknesses are?

Unless you are the government or a monopoly, which is somewhat rare, you are going to be out there competing for a share of the wallet (or purse). If you are to be successful, you really should understand what your competitive strengths and weaknesses are so that you trade on your strengths and avoid being confronted by your weaknesses. Basically, you have to know what your competitors are up to.

No one ever said business was easy or without its risks, but imagine running a business without keeping tabs on your competitors. Surprisingly, lots of business people do and they wonder why they simply can't make any traction in their business. It can work in limited situations where you have no local competitor, but few of us have that luxury. The whole nature of business is to carve a path for your business where you get some competitive advantage. Staying still while your competitors are changing simply asks them to come and take away your business. You need to constantly monitor what they are up to and review what they are offering in your market so you can adapt and find new points of difference.

What we tend to forget is that customer value is composed of many components, not just the obvious functionality of the product or service. Even if you have a product which is identical to your competitor, you still have many choices as to price, location, customer service, accessories, after sales help, complementary products and so on. There are numerous ways in which you can create a point of difference but you need to be proactive in doing so and nimble enough to change when competitors get close. Without a point of difference, you will end up competing only on price.

There is nothing wrong with you asking customers why they bought your product rather than the competitors. Similarly, ask those who bought your competitor's product what they liked about the item they purchased. You need information to make a judgement on what you should be doing next. This should not be entirely guesswork. You will always get surprises as they introduce new features and functions, but there is little excuse for not knowing what they have in the market now.

Be careful, how you play to a competitor's weakness. I know lots of salespersons who have been caught out by criticising the competitor only to find out that their new product has fixed a weakness. Customer react negatively to this. You should be trading on your strengths. If you select your prospects properly, they should be the ones who have the highest need for what you do uniquely or well. Let the prospect find out what your competitors don't do well. To pick your target market and aggressively market to them successfully, you do need to have a good understanding of what your competitors do well and not so well. At the end of the day you want your marketing and sales resources to be used effectively, understanding your competitors' strengths and weaknesses is fundamental to that objective.

SWITCHING COSTS

It is expensive and time consuming to switch products

The Oracle acquisition of Peoplesoft has exposed some interesting insights into how markets deal with terminated products with high exit costs. Clearly Oracle won't be allowed to sit back and enjoy the fruits of their hostile takeover without a battle for the hearts and wallets of the former Peoplesoft customers. The costs to the former Peoplesoft customer of moving away from the Peoplesoft software is both a blessing and a curse for Oracle. There are some interesting lessons for all of us in this acquisition.

Exit costs or 'switching costs' are one of the pillars of barriers to entry. As an entrepreneur you want low costs of entry so that your customers will easily sign up with your product or service but you want high costs of exit so that they are locked into your business. The large players in the enterprise application (ERP) software market, Oracle, Peoplesoft, JD Edwards and SAP, have traditionally had to compete across a range of product/service dimensions which include functionality, data conversion, connectivity, support, user training and ease of use. They each have very proprietary ways of database design, application development environments, data coding, access and security controls and so on. The cost of implementation is normally several times more than the license costs. Thus a customer switching from one to another has a significant cost of implementation and such a change will involve considerable resources and be problematic, stressful and time consuming. Thus the switching costs are very high.

I had several software businesses over a period of twenty years including an ERP software business. Several times I tried to move customers off one product to a new, enhanced product. I was successful with less than 1% of the customers. Basically the costs of converting the data, retraining staff and changing administrative systems and processes wasn't worth the marginal increase in functionality. Unless there was a compelling need that had to be satisfied, the costs and time involved did not justify the switch.

The good news for Oracle is that few will bother to switch out of the Peoplesoft

application even though Oracle has announced that no further development of the software will occur after the next major release. Oracle has however stated that it will support the software through to 2013. However Oracle needs to retain the maintenance and support revenue on the software as this will represent the bulk of the income from the former Peoplesoft as very few customers will switch to the Oracle solution. Even though Oracle will slash 5,000 staff from the combined corporation, the financial justification of the acquisition will fail if they cannot hold onto the maintenance revenue.

Without on-going development, the Peoplesoft customers may however decide to take their maintenance business elsewhere. SAP, in a bid to gain a slice of that business announced the acquisition of TomorrowNow, which it described as “the industry’s most experienced third-party support provider of enterprise maintenance and support for customers of PeopleSoft and JDE”. No doubt former Peoplesoft support staff will set up similar businesses around the world in an attempt to take away the support business from Oracle. Oracle can only really protect their former Peoplesoft customer base now by providing a superior level of support services at a discounted price so that those customers are not lured away.

When the former Peoplesoft customers need to renew their ERP systems, they may as well start their search again even if Oracle is offering generous license discounts. Certainly in the near future Oracle’s competitors may well offer similar discounts to level the playing field. Microsoft and SAP have already announced 25% license discounts.

The Oracle- Peoplesoft acquisition highlights very clearly the importance of switching costs to the supplier. Switching costs underpin most customer loyalty programs. The costs to the customer are not simply money but involve search time, stress, conversion time, issues of self image, hassle, reputation and so on. Smart marketers try to build into their products or services factors which satisfy psychological as well as functional needs. They also try to build opportunity costs into not using the product or service. So loyalty programs that pay increasing benefits with use incur a higher cost of not using once you are a frequent user.

Customers who have a good experience with a product are much less likely to shop around even if the price to acquire the same product or service again is higher than the next best alternative. The time to search out the alternatives, evaluate them, understand the differences and then reorient yourself to a new

look, feel or use, may have high opportunity costs associated with it. Then of course there is the risk of being unhappy or dissatisfied with the result. The higher the risk of possible dissatisfaction, the less likely the customer is to switch even if there are cheaper alternatives. The key here for the entrepreneur is to not provide the customer with an excuse to switch. While they are satisfied, they are less likely to start searching for an alternative.

Entrepreneurs can use this customer characteristic to build loyalty and thus more resilience into the business. The higher the level of repeat purchases, the less dependent the business is on new customer acquisition.

REVENUE MANAGEMENT

Recurring revenue and account penetration increase business resilience

High growth companies have higher rates of sales referrals and greater account penetration. This observation comes from some US research on the difference between high growth and low growth firms. What was also interesting in the conclusions of the study was that high growth firms spend less on marketing per unit of sales than low growth firms. High growth firms ‘go the extra mile’ to keep customers happy and to retain their business. But what did these firms do to create this situation in the first place?

Generally speaking, you can only build a referral capability if your prospects can relate to your existing customers. If I am in a different sector to you and I am trying to solve a different problem, your relationship to the firm bidding for my business is of little interest to me. But, if my problem is the same as yours and we have many aspects of our businesses in common, the fact that the product or service worked for you is going to resonate with me. What this tells us is that focus is important. Doing more of the same stuff for the same type of customer and doing it well tends to drive growth.

Companies which specialise tend to pick up the language of the customer so their salespersons actually sound like they know what they are doing. Both the firm and the customer get business done more quickly because they understand each other better. You might say that this connection benefits from a learning curve effect. Basically, I don’t need to educate you on my business because you deal with my type of business all the time.

However, just doing something well is not sufficient, you also need to look after the customer post sale and make them part of your extended family. Customers place a value on customer service and on relationships. Firms which engage with their customers, involve them in surveys, discussions, marketing activities and listen to their needs, resolve problems quickly and acknowledge their contribution keep customers long term. Higher account penetration, that is selling more of the same or selling complementary products to the same account, occurs because there is a preferred supplier relationship. We don’t want to have

to bid for every purchase. What we want is for our current customers to come back to us because they felt they were treated well and we value their continued business.

The combination of sales referrals and deeper account penetration has multiple positive effects on the business. Marketing costs are lower, profitability is higher, forecasts are more accurate and new products have a ready market. Even in an economic downturn, these businesses have higher reliance because customers are less likely to shop around for a lower price. They value the service they receive and are more loyal.

I have always wondered why businesses expand by going into different products and different markets instead of expanding geographically where they can find more of the same valued customers. If you want to drive growth – do more of what you do really well.

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