Dr. Tom McKaskill

MASTERCLASS FOR ENTREPRENEURS

on

Business Resilience

INSIGHTS ON HOW TO ACHIEVE GREATER STABILITY, PREDICTABILITY AND RESILIENCE IN YOUR BUSINESS

BREAKTHROUGH PUBLICATIONS

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Insights

You can't manage a successful business on HOPE. You need to construct an enviroment where outcomes are forseeable and actions can be taken quickly to correct negative trends.

Any business can dramatically improve its profitability and growth prospects by installing systems, processes and policies which manage risk exposure.

Successful 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 resilient ventures. They do it in combination with their customers, suppliers, partners and employees.

While luck always plays a part in any success story, attention to detail and a deliberate strategy will greatly improve the probability of success.

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

To be successful in business you first have to survive. When did anyone ever teach you survival skills in business? It simply never makes the curriculum. We teach sophisticated financial analysis but put little effort into teaching cash flow analysis. We show how to construct massive marketing plans but spend little time on showing how to block competitors.

Basically we have failed to build a body of knowledge on resilience techniques in business. Yet these are the things we have to put in place at the outset of our business. If you don't survive, you don't get to do all the fun sstuff.

I see resilience as sustainability in business. How do i weather the ups and downs of the marketplace? How do I survive the loss of a key employee, customer or supplier? But more importantanly, how do i interact with the marketplace so that I have greater stability and predicatability in my revneue numbers.

Resilience techniques are fundamental to business operations. They provide a platform from which to grow. They allow the business to plan further in the future and to commit to projects with confidence. They force us to acknowledge that our environment is unpredicatable to an extent but also unforgiving. We learn to think before we leap and to plan for the unexpected. In doing so we have a greater chance of ending up with a great business.

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PART ONE: STRATEGY

Resilience requires a deliberate and sustained effort. It is not simply about managing well, it is an approach to the business which seeks to contain problems, avoid risks, anticipate negative events and react quickly when anything happens. It starts with a long term view of the business and putting in place strategies which, of themselves, provide resilent advantages to the firm.

BASIC CONCEPTS

Why Start-Ups Fail

The major causes of business failure are now well documented and there are now some sophisticated modeling techniques that are able to predict with considerable accuracy whether a particular business will fail. While there is no one characteristic of a business that will, by itself, cause a business to fail, a combination of weaknesses can create a situation where failure is highly likely. The entrepreneur that is open to learning can use this accumulated knowledge to improve their chances of survival.

There have been numerous studies on the causes of business failure, however finding an obvious solution from this research is problematic. First you have inconsistencies in the definition of failure. Some definitions of failure restrict themselves to situations where there is a loss to external parities, which normally occurs in bankruptcy, insolvency and receivership. Failure may also include the closure of the business where there was no loss to external parties. Other definitions may include substantial reduction in size, distressed take-over and/or a failure to make a profit.

Secondly, collecting data on the failure after the event has proved to be especially difficult. Once the business has closed it may be difficult to trace the prior owners or the prior owners may not be willing to discuss the events. Sometimes this is from personal embarrassment or it may be that there is potential litigation outstanding. Thus researchers have struggled to collect sufficient data to generate meaningful conclusions with regard to the causes of business failure.

Because there is no agreed definition of 'failure', the data on the rate of failure is open to speculation. A 1997 ABS report of business exits in Australia, reported that exits accounted for 8.5% of all business per annum (their definition of exits included cessation, liquidation, receivership, change of ownership and mergers). They report a much higher exit rate in new businesses. The ABS data provide the following rate of exit of new ventures; 18% exit after 2 years, 24% after 3 years, 35% after 5 years, 55% after 10 years and 65% after 15 years.

Several studies have measured start-up failures. David A. Garvin writing in the Harvard Business Review (July 2004) in an article entitled "What every

CEO should know about creating new businesses" states that , during the 70s and 80s, 60% of small business start-ups failed in their first 6 years. Other studies over different periods and in different countries have found similar rates of failure. There is, however, some level of disagreement across all these studies as to the primary cause of failure. It is thus difficult to be definitive and arrive at a simple predictive model which could be universally applied. There also appears to be distinct differences between the causes of start-up failures and failures of established business.

David A. Garvin stated in his HBR article that start-up failures demonstrated one or more of the flowing problems:

- Customer failure (unwillingness of customers to pay for product or service, or insufficient demand)
- Technological failures (inability to deliver the promised functionality)
- Operational failures (inability to deliver at the required cost or quality levels)
- Regulatory failures (institutional barriers to doing what's desired), and
- Competitive failures (a competitor's entry changes the rules of the game)

He concluded that success rates rise substantially when a new business targets familiar customers and is staffed by people well acquainted with the market. His litmus test of survival for start-up entrepreneurs is for them is to find a satisfactory answer to the question; "What's the pain point for customers and how does our offering overcome that pain?"

In more established business, the consensus of opinion suggests that the primary causes of failure are; a lack of adequate funding, a failure to recruit good quality personnel, the lack of planning and a failure to use professional advice. Characteristics such as not having multiple partners, not having parents who own a business, a lack of prior management experience or having young owners have all been found to contribute to venture failure in some studies but are not supported in others and thus do not seem to have general applicability.

What all these studies do show, though, is that there are some very good predictors of failure. While individual characteristics might not be decisive, there can be no question that the more of these deficiencies that a firm has, the higher the likelihood of failure. Entrepreneurship education programs use this information to help start-up entrepreneurs. The teaching program is built around two major thrusts; not committing to a venture if the idea fails to satisfy certain investment criteria (ie. killing off a bad idea) and ways to improve the probability of success.

There is overwhelming evidence to show that it is possible to predict in advance that a specific business idea has a limited chance of success. Thus a market that has too few potential customers, where the customers don't have any money, where the technology is unproven, where competition is fierce, where costs are highly uncertain or where the entry costs are prohibitive are situations where the idea should be rejected. Opportunity screening models or 'investor ready' models and checklists can help both potential start-up businesses and existing businesses avoid investment decisions that have low probabilities of success. Too many ventures start where little investigation of market demand, competition and the economics of the business was undertaken.

Dun and Bradstreet argue that 90% of business failures are due to poor management. The difficulty with this statement is in defining 'poor management', or alternatively, working out what the business can do to avoid it. In this regard the research gives us some pointers. Clearly a business can avoid some obvious risks by taking professional advice or listening to business owners that have experience in the chosen industry. All successful business owners would agree that recruiting good staff makes sense, but perhaps the start-up entrepreneur fails to appreciate the impact that this has on business survival.

All studies of business failure agree on the importance of business planning to the survival of the business. In practice, this will mean more than having a written business plan. An important technique for avoiding business failure is to know what is happening in all aspects of the business and to have an early warning system to detect situations that need attention. Every business has its critical success factors where a failure in that aspect of the business is a precursor to business decline or termination. Reporting systems need to be developed so that these critical areas of the business can be monitored and action taken when unacceptable performance levels occur.

Dr. Michael Schaper, a former Professor of Entrepreneurship and now the ACT Small Business Commissioner, advises firms to undertake 'shock proofing'. "Every firm knows that there are a few critical events that could substantially damage their business. For example; it might be the loss of a key customer, the failure of a key supplier or a fall in sales. They should examine the likely impact of each of these critical situations and do some contingency planning to reduce their impact. This may result in them holding a little more safety stock, dual sourcing of components, planning for additional liquidity, looking for additional customers and so on. A disruptive situation that can be planned for can most often be contained."

Many new ventures simply should not have been started and even a limited investigation of the opportunity would have uncovered fundamental flaws in the business concept. Analyze the opportunity before you decide to invest in the business

- Do you have a real customer with a real problem
- Are you taking advantage of professional advice
- Do you recruit the best staff you can
- Have you enough funding to survive possible problems
- Does your business monitor its key success indicators
- Have you undertaken contingency planning

There is little that can be done to overcome a basic weakness but recognizing the inherent problems may encourage the business owner to close the business before the losses become overwhelming. For an existing business, recruiting good staff, getting good professional advice, undertaking some contingency planning and implementing early warning systems around key success factors should provide the best protection against failure.

ACCOUNT PENETRATION

Sell more to your existing customers

More often than not, survival and business resilience is simply about getting back to basics. Perhaps the most basic rule of them all is to 'look after your customers'. But I don't mean being nice to them or making sure they are satisfied with what they buy, I mean really working the customer base to increase usage, recurring sales, account penetration and referrals – quite a list, but each of these represent proven strategies for improving growth, profitability and business resilience.

The relationship between supplier and customer is fundamentally different from that of supplier to prospect. If the customer has had a positive experience then you can expect a level of confidence in the supplier, some degree of trust, often a sense of shared ownership of the outcome and a personal connection from the experience of having been through the process of evaluation, purchase and usage which turned out to be the right choice. The pragmatic implications of this relationship flow through to real benefits to both parties. For the seller, reduced decision time in searching and evaluating, often without considering competitive offerings. This can result in a positive influence on others making similar choices, thus an increase in referral sales. For the buyer, less search time and confidence in making the right decision.

The customer with a positive experience is also more open to trying and buying other products and services from the same supplier – a cross selling benefit. With a positive use experience, it might also be possible to get the customer to increase the frequency of purchase or have them try the same product or service to solve a new set of problems. My customer is also more likely to take my phone call when I am introducing a new line or pushing a promotion. With a little bit more persuasion, I may get them to join a loyalty scheme or move to a long term agreement as a preferred customer.

Research supports this strategy. It is now a well established principle in business that it costs a lot less to make an additional sale to an existing customer than to acquire a new customer. Furthermore, the research into high growth firms shows that looking after your customers results in higher referral sales, lower customer churn and lower marketing costs per unit of transaction.

In my opinion, the greatest benefit of providing superior service to your customer base is business resilience. You simply have a much greater chance of surviving a market downturn if your customer base provides a health percentage of your sales. They are more likely to stick with you than go over to the competition, they don’t shop around and tend not to be as price sensitive, valuing quality of service over a short term discount. In practice, your loyal customer actually has a vested interest in you doing well. Your survival means they have a reliable supply source which means that this is one more issue they don’t need to worry about. And, you get to sleep better at night!

INNOVATION

Protect your R&D core

You may lose the odd battle but make sure you have enough ammunition left to continue to fight. In business, this means ensuring that you protect that part of your business which gives you your long term competitive advantage; normally your research and development capability. If you are in the product business, this might be your ability to design and launch new products or to source new innovative products from others. If you are in the service business, this might be your creativity in being able to innovate new services or processes to attract new customers or retain existing ones. Whatever it might be, in a downturn, you need to ensure that you retain this capability so that you can survive and support your growth when the economy recovers.

When the going gets tough we often need to cut back on our overheads and this often leads to retrenching staff in the product and service development areas. However, this often undermines our long term core strength. Therefore, what we need to do is to seek out some creative solutions for retaining the best of our development staff through the rough patch.

The first thing we might ask is – what else could they do which would offset other costs or generate revenue? Could you take on external R&D work? In one company I worked with the company employed an external business development manager to seek out R&D work from local businesses in the area. Over a period of 6 months this work was built up to 30% of their workload and gave them a degree of resilience which they would not have achieved inside their own business.

In one of my own companies, we had a large R&D team of about 15 staff, all who were critical to the on-going development of our software products. Most had several years of experience with us which meant they were very knowledgeable of both our technology platform and our application products. The loss of any one of them would have resulted in high recruitment and training costs to find a replacement. Rather than let that happen, we sought work with our customers so that they would be able to cover their own salary during a period of downturn.

Cross training is another safety net you should be employing. To the extent that it is possible, have members of your R&D group work across a number of projects and in various capabilities so that you have a succession plan in place. You might also seek out external providers who can be brought in at short notice to assist in a recovery until you can rebuild your own capability.

The key to protecting core competency is to have thought though the problem of a downturn well in advance and to have put in place contingencies in the event that you need to take action. You need to have a game plan for each member of your core team. Such a plan might also require them to have additional training so that they can be used in a different capacity. The overall objective must be to protect your core capability through hard times so that you are well placed to grow and prosper when the recovery comes.

INCOME STREAM

Watch your recurring revenue

If I had to pick only one characteristic of a business which was essential to business survival, I would pick recurring revenue. Lots of other elements would be in the mix, such as competitive advantage, great staff, loyal customers, good brands, key locations and so on, but nothing beats recurring revenue for staying in business in hard times.

Recurring revenue can be different things to different sectors and even for different businesses within the same sector. The best forms of recurring revenue, of course, are those protected though contractual agreements. Thus revenue guarantees, long term supply contracts, service agreements, maintenance contracts, protected territories, exclusive agencies and so on are great to have. Somewhat weaker forms of recurring revenue come from loyalty schemes, preferred product placement and strategic partnerships. The key characteristic of recurring revenue is that you can rely on it to continue even when times get tough.

As a business we can set out to build a recurring revenue stream even without the protection of an agreement. Generally this means creating products or service which have a maintenance or upgrade characteristic. We can also do it by having products which need to be renewed or replaced on a regular basis but which also have high switching costs. High switching costs occur when it is expensive, time consuming or stressful to move from one product or service to a competitor's offering. Products or services which are embedded into the buyer's organization or processes are generally difficult to replace.

We can also build a recurring revenue stream by devoting sales resources to generating preferred or exclusive supplier relationships. While these can be done around discounts and rebates, think about other forms of value you can bring to the customer. Perhaps they might want a higher guarantee of supply or capacity, or products better tailored to their own business. Look at how you can be more strategic or needed by your customer. Can you provide greater value by understanding their business better or making your own business easier to deal with?

A resilient business can fall back on its recurring revenue to survive for some period of time. Thus, while they may not be generating new customers, the current ones stay loyal and generate reliable revenue. At the same time, the business needs to ensure that its recurring expenses can be cut back under its recurring revenue. Since many expenses are difficult to reduce, this means that recurring revenue needs to be reasonably high if it is to provide protection from a downturn. A good rule of thumb is to have recurring revenue at 50% of total revenue, but this will depend on your recurring expense levels.

A good business knows that current customers are the key to survival and will put extra effort into working with the best of them to ensure they remain loyal when the market tightens up. Remember also, that customers that are well looked after are also easier to sell to again and will generate referrals, thus looking after your best customers is both a survival strategy in hard times and a growth strategy in good times. Well worth the investment.

PLAN FOR AN EXIT

Be ready to sell out

We often forget that business is 50% good execution and 50% luck. Not all luck is good luck and even good luck can create problems. Just think of the high growth firms who ran out of cash and became insolvent. Bad luck happens! We can get into difficulty through many problems which are not of our own making, just look at the impact of the current global financial crisis. What we do need to do though is be realistic and prepared to call it a day if the situation is beyond recovery.

My most spectacular business failure had an outstanding outcome. I sold my business for six times the prior year's revenue. A very large competitor came into the market and swept away our prospects leaving us with 30 staff and very little future. However, because we had prepared the business for sale, we were able to sell it within two weeks to a global corporation who had a large customer base who would purchase our products. Was it a failure or a success? When you look at the final outcome you might have a different view.

What is important is to recognize that business is about risk and that you can only contain those risks to a certain point. There does come a time when you are better off folding the tent. When a business gets into trouble, people are stressed out, families suffer and our own health takes a battering. We have to accept that there are some situations which can't be fixed and be prepared to sell out and move on. If you are well prepared, you can still do well on the sale or at least recover some of your investment. Just because it isn't working for you, does not mean that another person or business cannot make it a success. What is constraining you, may not be a problem for them. You may not have customers but they might have them in abundance. You may have an expensive manufacturing facility but they may have spare capacity which they can utilize.

What I did discover over 20 years and several business ventures, is that I got a lot smarter over time. Each subsequent business was set up better, had a better product/market position and I gathered very good staff around me. I have often talked to business owners who would like to start again because they recognize how much better they could do the next time around. There is nothing wrong with selling a business, recharging the batteries and then starting again with renewed vigor and a bit more wisdom.

What we need to recognize is that sometimes we need to let go. A business which is failing need not wait till the last minute to close it doors leaving the employees unprepared and jobless. An orderly transition to selling a business can prepare staff for new positions through retraining and time to find new jobs. At the same time, a systematic search for a buyer may find a new owner who can revive the business by bringing new ideas, funds and opportunities to the business.

KEEP THE BANK ON-SIDE

Don't surprise your banker

Bankers hate surprises. The last thing they want is for you to come to them at the last minute with a request for a loan or an overdraft to save your business. We forget that banks work on very thin margins, often around 2%. If your $10,000 loan goes bad, they need to write $500,000 worth of business to recover the loss. In this situation, you can understand them not being very happy with your news. If your loan gets refused, you really need to blame yourself for not taking the time to work closely with your banker

You need to see the bank as a partner in your business because when you do well, they do more banking business. But they are a limited partner in that they have very little upside when you do very well but they are greatly exposed when you are unable to pay your debts. They are, however, in the risk business to an extent. They charge you interest not only to recover their expense and make a small profit but also to cover the risks of default. If they do lend too little they don't make the additional profits on the marginal loans. If they lend too much, they incur greater loan defaults. So there is a delicate balance between too little and too much. What you need to do is to give them some level of comfort that you are good for the marginal loan, that is, you are an acceptable risk. You can achieve this by ensuring they understand your business risks and the manner in which you deal with those. The more confidence they have in you, the more likely they will take the risk in supporting you when you need help.

My first business was a computer software start-up. It was very much feast and famine so I really did need the support of my bank to cover us during the lean periods. I met with my personal banker every month and gave him a complete set of accounts and a 6 month cash forecast based on worst, most likely and best estimates. When we saw a downturn coming, I would propose a series of measures to bring more cash in or cut expenses. After he had worked with us for a couple of years he could see the patterns in the business and knew that we would take the actions to correct foreseen problems. On that basis, we were able to negotiate a loan facility which was sufficient to see our business through the troughs.

The key to working with a bank is to be honest, understand your strengths and weaknesses, provide them with good information and meet them regularly so they can make a proper decision and be prepared to accept their advice. Accept that they are not there to prop you up. You still have to make the business work but they can help if you can fit in with their business model.

EDUCATION

Educate your staff to reduce turnover

If you have a business which is not overly resilient, chances are that your employees will be worried about their future employment. Those who are concerned about being made redundant and expect to have trouble finding another job will often start looking for another position before the axe falls. In many cases, their fears are unfounded and the business is in a strong enough position so that their jobs really aren't in doubt, but it is hard to convince them to stay when things don't look too rosy.

I had several businesses which I would call rollercoaster's, that is, they had periods of significant growth and then there were periods of zero sales. When it is impossible to see when the new business will come through the door, it is very hard to motivate staff and encourage them to stay until the good times come around again. What I found was that the staff who had least faith in their ability to find another job were the most vulnerable. Those employees who were confident of walking into another job the day after they left us were more than prepared to stay around and keep working without being overly worried by the sales results.

If you turn this on its head what it tells you is that you can create a more resilient climate within a business where people are not overly concerned about getting another job if things don't work out. Employees who are well trained, have good education and demonstrable skills and are in positions in demand within the industry have little to fear. Thus you can help take the pressure off them by ensuring that you create a business environment where people are encouraged to further their education, you offer opportunities for cross-skilling and you direct their work activities to allow them to improve their knowledge and experience.

In my last business, I arranged for an entire group of software developers to undertake a graduate certificate in manufacturing theory and practice. We rotated people though various jobs to give them experience in areas where they needed up-skilling and often gave them an opportunity to work alongside more experienced staff to build up their own capabilities. Our business was more resilient as a result as we could move people around to cope with a changing workload and could easily cover for someone who was on vacation or relocated within the business. Our staff turnover was negligible as a result even though we did have some difficult periods. When we did finally sell the business, those who were not required by the buyer were able to find new jobs very quickly.

Rather than create a situation where the better skilled leave, you can actually create a situation where people want to stay because they are getting good opportunities for personal development. They also know that the training and experience they are getting them makes them more employable so the risks associated with redundancy are significantly mitigated. A challenging, interesting and enjoyable work environment will almost always win over a secure boring job if you take away the risk of unemployment.

SECURITY OF KNOWLEDGE

Protect your innovative capability

When you can't see the future with any degree of reliability and future revenues are in doubt it does pay to trim some of the fat out of the company, cancel or delay unnecessary expenditures and put effort into survival and reliance. Better to survive and prepare to fight anther day than to go under because you were not prepared to make the hard decisions. However, as you trim back, remember that you have to prepare yourself for a comeback. That means ensuring that you keep intact, as much as possible, those resources which create your competitive advantage. You need to hold onto your innovative capability and your corporate knowledge.

We are always very tempted in a cutback to slash overhead expenses and often that means taking the razor to our research and development capability or our creative and innovative back room staff. Admittedly they have little short term effect and their lack of presence would not be felt for some time, but in the long term, this is where we build our competitive advantage. In fact, the fastest way to failure is simply to do what everyone else is doing. You are then in the commodity business and the only companies that survive there are the ones who can produce at the lowest cost.

Innovation in a product or service allows us to differentiate, the fundamental basis for competitive advantage. Through innovation we can find niche markets where we can generate premium prices, customer loyalty, a leadership position and, often, good recurring revenue. It is customer loyalty and recurring revenue which will enable us to best survive in hard times and it will form the growth platform of the business when times get better. Growth companies heavily rely on customer referrals to generate new business. You can't achieve that if you look the same as your competitors.

So the bottom line is – protect your creative, innovative capability where you can. You may need to get a little creative yourself to do so. Perhaps you could give some extended leave, maybe to visit distant relatives, take the overseas trip or get some educational qualification. Maybe you could farm them out to customers to undertake contract work. You might try moving them internally to undertake other work while you wait for better days.

In a downturn jobs are hard to get so your good people will be interested in protecting the jobs which they have. By opening up the discussion with them as to how they might contribute to protecting their own positions during a downturn, you give them a chance to contribute to the solution. When the idea comes from them or they get to participate in the discussion, chances are that they will be more likely to accept.

If you do need to let some good people go, let them know that you want them back when times improve. It may be that they will be interested if they don't find something as good as the position they had with you. Keep in touch and view them as extended family. Your objective throughout this process must be to create the platform for rebuilding the company when business conditions improve.

DISTRIBUTORS

How can you manage channel conflict

Not all customers are the same. While they may face the same problem or need, the way they go about searching for a solution, evaluating the alternatives, selecting a product or service and buying it, will vary from one group to the next. What this means for the growth oriented business is that 'one size doesn't fit all'. You need to find different ways of reaching out to these difference segments and you may have to find different distribution channels to satisfy them.

With the rise of the internet we saw, for the first time, effective disintermediation, the ability to bypass the traditional retail outlets to get directly to the customer. While it took some trials and errors to work out what products suited this new channel, the fact is that a significant amount of business is now done in this manner. However, it came with its challenges for those suppliers who continued to work through wholesale and retail channels. Basically, suppliers found themselves competing with their traditional channels and this was rarely received in a positive spirit. Thus a customer could evaluate a product in a store and then go to the internet to find the best price. This channel conflict created significant problems for those suppliers who wanted to take advantage of this new channel.

Some suppliers found themselves in conflict with their own staff. The Sales Manager who was paid a performance bonus on managing sales through the retail channel now faced the possibility of expending effort on marketing, promotion, sales training and so on, only to find that those resources ended up benefiting the internet channel with no compensation to them. Imagine the response from franchise outlets who had to go it alone in the face of such erosion.

Multi-channel conflict has always had to be managed between agents, distributors, wholesale and retail but this could normally be done on a geographic basis. The internet, however, has no such boundaries. That does no mean to say that the new channel issues cannot be managed or, at least, mitigated. Some supplies simply use the internet for information content, others direct traffic and orders to the closest outlet. The internet can also be used to provide different forms or quality of a product, thus a discounted or discontinued line could be offered through the internet with new models only available at the outlets. Products can be packaged differently in different channels so that like cannot be compared for price hunters, or different terms and conditions can be applied to different channels.

Those suppliers who face channel conflict are better to work with their various channels to find solutions which are mutually supportive rather than cannibalistic. Retail outlets might like the advantage of internet exposure if they can limit the loss of business to direct sales.

A company seeking to optimise their spread across multiple channels needs to bring all parties into the planning process so that the conflicts are exposed and discussed and solutions arrived at that is acceptable to all.

USAGE

How are your customers using your products

We may think we know what our products are designed for but you can be sure that there are customers out there who have come up with some very creative ways of using our products that we didn't think of. People use our products in unexpected ways just like when baking soda was used to take odours out of fridges and baby shampoo was used by adults for daily use. Rather than ridicule such usage, we need to tap into it to extend the market reach of our products.

Sometimes new usage comes from an accidental discovery when a mistake has been made and a positive outcome occurs. At other times, it is simply a customer stretching the boundaries of intended use to solve a problem where they have no other solution. However it comes about, we need to know about it. The negative side is that we may be exposing ourselves to unintended product liabilities in which case we can label our products accordingly to protect ourselves. The positive side is that we discover a new way of utilising our product and turn that into a new version of the product and/or a new market place which we can exploit.

You could simply wait until someone happens to tell you of an interesting experience with your product and then react to a new opportunity but is not an effective growth strategy. The more proactive approach is to reach out to your customers to solicit how your products are being used, or might be used, to solve new and interesting problems. Remember that the customer who adapts your product to solve a problem which they have been unable to resolve any other way is taking you into a potentially untapped market. New markets are where you often experience growth situations; demand exceeding supply, consumers not being price sensitive, market leadership opportunities and so on.

You can simply acknowledge another use for your product, adapt the product so that the new task is easier to undertake or open up a new market with a specialty product. But in all cases, you are enlarging your marketplace and creating opportunities for new sales, often with very low product development costs.

We need to make customer feedback an active part of our market interface if we are to actively overcome product deficiencies and improve our products as well as to discover new missions for them. Customer loyalty, reference selling, increased sales to existing customers and customer satisfaction are all characteristics of high growth businesses. Asking customers how they use the product and improving its usage characteristics is fundamental to building reputation. If at the same time, we use customer feedback to discover new ways of using the product or ways in which the product usage can be enhanced or extended, we are making our marketplace work for us to show us where growth opportunities might be exploited.

Of course you may also just get lucky and discover a blockbuster product. Imagine tripping over a solution to an age old problem and having the first solution in the marketplace. They do say that we can make our own luck. Perhaps by listening more to our customers we may just do that.

QUALITY

Quality pays

For the last few decades management has been told that quality pays. That doesn't mean that someone pays you for quality but that any resources spent on improving quality will have a very positive return on investment. Basically, whatever you spend on improving quality will be returned to you in decreased costs. One could also put up a good argument that revenue is increased by additional sales, higher prices and /or higher contribution through better quality products and services. But when it comes to pushing a growth strategy, quality really makes a difference.

When we push the boundaries of our capabilities and our capacity to lift our run rate, we are highly sensitive to things going wrong. If something does go wrong, not only does it stall our growth but, because we are so finely tuned, we don't have the resources spare to sort out the problem. We end up taking precious resources away from critical areas to sort out problems thus creating waves of problems which ripple though the organisation.

You need to have a fundamental philosophy of stopping problems where they occur rather than finding them later on and then working backwards to fix them. Take a simple example, a defective component which is installed into a finished product requires product recall, examination of the quality testing to find out where the problem occurred, remedial work to fix the component, new testing and reshipment. All very expensive to a company which is using its limited working capital to further growth.

What you need is a quality regime which tests items cumulatively, which reports errors immediately, which addresses problems when they occur and uses performance metrics throughout the business to ensure high quality is established and continually monitored. A growth business needs every part of its organisation to be working efficiently if it is to meet growth objectives. There needs to be a culture of quality where individuals are sensitive to doing quality work but even more sensitive to the impact of defects and problems on others.

Quality does not occur by imposing it on employees, it is established by employees taking ownership for the quality of their own work. By demonstrating the impact of quality problems on downstream areas, it is possible to show the costs to the business of allowing problems to go undetected or uncorrected. We need to work with each part of the business to establish what errors are occurring and how they might be identified and then corrected. In this regard, we are really asking every individual to participate in improving quality not just the inspectors.

If we are to pursue a growth objective we need to look at quality control as a fundamental part of the plan. We need our resources to become more productive and for the connections between each part of our enterprise to be tighter. We also need staff to have confidence in the products and information they are using to undertake their own tasks. When that confidence is broken, productivity declines, decisions are questioned and growth becomes increasingly difficult. It is not just that quality pays but that quality is critical to a growth strategy.

CONTROL

You can’t manage what you don’t measure

If you want to build an effective and efficient business you need to accept a basic philosophy – if you don’t measure it, you can’t manage it! Sounds a bit corny but you would be amazed at what business owners take for granted. They somehow assume that leads will come through the door, that sales staff will convert them to business and that the rest of the organisation will deliver quality products to customers. However, the reality is that this is simply hope and that sustainable best practice only happens with a lot of work and very good monitoring systems to back it up.

Any business is a complex interaction of lots of internal and external activities, any of which can throw the business off track. It is not sufficient to have a set of accounting reports which tell you what happened last month or last year, what you need to know is what is going to happen tomorrow, next week, next month and next year. We only effectively manage by controlling how we will respond to anticipated future events not by simply reacting to what has already happened. Thus early warning systems, measuring leading indicators, keeping track of what is happening at the coal face and monitoring how you are progressing internally are all essential parts of a high performance information system needed to promote efficiency, profitability and growth.

Basic quality management theory suggests that you can only improve quality if you measure activity. By putting in tracking systems and measuring outcomes, we are able to see the variability of the result over time. We then start the investigation into why the results are variable. We need to understand what happened when we achieved better results and what happened when results were poor. The investigation needs to get to the root cause of poor performance, or explain good performance. We learn from the analysis and put in place new methods to improve the average performance. When we do this across the organisation we get a gradual but consistent improvement.

This basic approach works in all aspects of the business. We can track the effectiveness of our marketing spend, the conversion rate of leads to orders, the cost of procurement and the quality of our after sales support systems. If we are serious about seeking out growth opportunities, we have to have a performance setting and monitoring system to back it up. We improve our ability to set and hit targets by improving our ability to accurately forecast future events and deliver quality outcomes by examining how we do each time and learning from our mistakes. Underpinning our learning process is a system of metrics so that we understand what we did and what the outcome was.

In setting up performance monitoring systems we also should be sensitive to the fact that we need to assign responsibility and accountability. There is little point in measuring stuff if you don't have a mechanism for taking action on what you discover. Ultimately, we need to be able to predict what is going to happen in the future and use that information to improve our chances of success.

INTELLECTUAL PROPERTY

Use patents, trademarks, brands and copyright to build protection

Higher growth rates are achieved when you have stronger competitive advantages in a substantial niche market where your product or service meets a compelling need. Solving a compelling need and targeting an easily reachable market in itself wont drive substantial growth if there are many competitors able to absorb the available demand. Even a strong competitive advantage will not be sufficient if it cannot be protected or sustained over time. What you need for long term growth is either legal protection of your advantage, which is available through patents, trademarks, licensed rights or copyright, or deep expertise which is difficult to copy.

The monopolistic protection offered by intellectual property (IP) registration is somewhat difficult to reconcile with our free market ideology. Why should we allow a business to exclude competitors and give it the right to charge higher prices than what a competitive market would impose? The answer lies in the desire of governments to encourage risk taking in product development. Why would any company spend huge amounts of money to develop a new product if it could quickly be copied by their competitors? How would you achieve a return on your R&D spend if your competitors could sit back and wait for you to do all the hard work only to see them copy your invention before you could recover your expenses? Thus the state legitimises monopolistic outcomes in order to encourage innovation. That being the case, you need to take advantage of that concession to develop IP which can build and sustain your competitive advantage.

A well developed and protected competitive advantage provides a business with room to experiment with market approaches, allow it to make mistakes and provide a time buffer for it to bring new products to market to sustain its advantage. But first you need to discover what you can do to create an IP based advantage. This is the intersection between customer problems and innovative solutions. You should be on the search for ways in which you can develop new products which can incorporate novel approaches which can be registered as IP. Even small improvements can open up opportunities for registered IP which in turn can lead to a perception in the marketplace of leading edge developments. Sometimes perception is as good as reality.

While the main advantage of IP is the competitive advantage it provides to near term marketing efforts, don't forget that registered rights can last many years, thus the benefits can be exploited for a long period. Also don't forget that IP which provides a competitive advantage can dramatically improve the value of the business on sale or on a public listing. It also significantly improves the ability of a business to raise angel or venture capital finance.

Not all registered IP is good IP. Simply developing something to clock up a registration is going to do little for your business. It must lead to an increase in competitive advantage to make a difference. If in doubt, try asking your customers if your planned innovation excites them – that is your ultimate test.

VALUE PROTECTION

Protecting the value in the Business

Few businesses like the disruption that occurs when a key executive or employee leaves but they really get upset when that person undermines their business by using company knowledge to compete against them. It is not just knowledge that can walk out the door; often staff, business ideas and future prospects follow. Most businesses also fail to take adequate steps to protect the value that they have in intellectual capital or intellectual property from theft or opportunistic exploitation.

The value in your business is not simply tied up in those things you can touch or those things that are listed in the balance sheet. In fact, most of the business capability is tied up in the knowledge that staff have in their heads. Your competitive advantage is more likely to be found in your business processes than in your equipment and the long term sustainability of the business is most probably found in your relationships with your best customers and your key suppliers than in the products or services you offer today. Just think how sensitive your business might be to the loss of some key individuals, key customers or key suppliers. Could your business survive the disruption of the loss of your major customer or a key supplier? Understanding where your vulnerability lies is the first step in developing a plan to protect the value in your business.

Few employees understand the legal relationship between employer and employee, thus they have no appreciation of the legal recourse you might have if they left with customer lists, process manuals or knowledge of partly developed business initiatives. As an employer you have the legal right to protect confidential information and to seek damages where this has been used in a way that disrupts or harms your business. Your first wall of protection should be to ensure that employees fully understand these rights and obligations and the actions you could take for a violation of them. A written assignment of intellectual property for all employees also ensures that you retain the right to exploit innovations that you have paid for. It also informs them of their obligation to disclose relevant business ideas and inventions to you.

You then need to protect your customer base from being enticed away. If the only value you offer to your customers is the cheapest price, any competitor that recruits your staff can simply undermine your future revenue by offering a lower price. Only by adding value to the customer relationship beyond the product or service can you hope to keep the customer. That relationship also cannot be dependent on one person. Entanglement of the customer in your business through multiple relationships and multiple points of contact is the best protection from encroachment. Is your customer involved in your strategic planning? Do you get your customers together with your staff to share ideas or to support community interests? Does your customer feel that they are important to your business on a personal and a business level? Long term preferred customer agreements, long term contracts and loyalty programs can also provide a time buffer to encroachment.

Just how dependent is your business on key suppliers or alliance partners? How would your business be impacted if they were enticed away to support a new venture or a competitor? Once again, entanglement of the supplier or alliance partner in your business where they become an extended part of your business is your best protection. Do you have multiple points of contact within their business with several parties within your own? Do your suppliers join you in planning, social functions and celebrations?

Protecting your business knowledge is more difficult. Where possible you need to protect intellectual property by having it registered as patents, trademarks or copyright. Ensuring that processes are documented, that succession planning and cross training is undertaken and that the business is not overly dependent on a small number of people is critical to sustaining the business when key staff leave. Securing key documents and controlling access to company confidential information is also part of the infrastructure needed to protect the value in proprietary information.

Quite often good staff will follow a key executive to their next employer. It suggests that their loyalty is more to that individual than to your business. Staff who enjoy their work, have multiple friendships within the business, work in a supportive team and are supported and encouraged to achieve their personal and career goals through the business are however less likely to be enticed away. Paying a proper market salary, providing opportunities for personal and career development and ensuring that each individual has multiple points of involvement within the organization for business and social interaction is fundamental to keeping staff.

Are you, as a major stakeholder in your business, personally involved with your major customers, major suppliers and key staff? You need to ensure that they all feel that they are important to your business and that their role in your business is recognized in the way you treat them and deal with them on a personal and business level. If you leave the key relationships in your business to others, you may find that they walk out the door with the next person who leaves.

FINANCING

SME challenges of raising cash

If you are like a lot of business owners and know how to develop your business but you just don't have the funds to do it, you will be looking for external finance. If you have already exhausted your personal savings, maxed out your credit cards and extracted as much as you can from family and friends, you will be off to the bank for some finance. What you will find is that the banks are not in the risk business and will be only willing to advance money if you put up a personal guarantee, your home and business assets as security. So for many entrepreneurs, angel finance or venture capital seems the logical path to finance their business development. However, this is a challenging exercise.

Few venture capital firms invest in smaller firms, preferring to fund larger businesses in industry roll-ups, consolidations, management buy outs and public to private ventures. They prefer financial engineering plays to the hard graft of growing an emerging business. The early stage and emerging business finance is undertaken by only a few early stage venture capital funds and Angel investors. Even so, the numbers which are invested in nationally are in the tens not thousands.

Private equity investors look for businesses which are both investor ready and investor attractive. An investor ready business in one which has all the information needed to be evaluated and monitored. The entrepreneur will have a formal business plan and understand his or her competitive advantage and will have systems in place to manage the business. But to be investor attractive is a very different proposition. This means that you can meet the investor's objectives. Each Angel Investor and VC firm will have their own preferences for how much they invest, where they invest and which industries and which stages of growth. They want to limit their level of intervention, leverage their experience and networks and only take on ventures where they can see a good return on their funds invested.

The higher the risk, the higher the required return on funds invested. Given that early stage ventures are inherently risky, investors typically want to see an average ROI of 17% to 25%. To achieve that across a portfolio of investments, some of which will be failures, they are looking for a target ROI of 30% to 40%. That means that a business has to double its value every two years to be investor attractive.

What few entrepreneurs appreciate is that the external investor is primarily interested in two things; what is the expected ROI and how they liquidate their investment. Private companies have no market for their shares so the liquidity event must be an initial public offering, achieved by about 1 in 10,000 early stage ventures, or a sale to another company, a trade sale. Thus a business which takes external Angel or VC finance will effectively be up for sale within a few years.

To be investor attractive you need to have high growth rate potential and offer a very good trade sale opportunity. You can see now why there are so few deals. Very few emerging companies can meet the requirement of a high ROI and a good trade sale possibility. But for those business which have strong intellectual property or deep expertise and can be sold to a large corporation based on high growth potential, external finance is a very attractive way to build personal wealth. Even if you end up selling your business as part of the deal, you will have the money to build or buy another or become an Angel investor yourself.

PART TWO: BLOCKING COMPETITORS

To protect the business you need to think through how you are going to preventnt determined competitors from taking away your current customers and your position in the marketplace. Most people see this as competitive advantage or strong barriers to entry, but if you take a more holistic view of your whole supply chain, you will see that opportuities to block competitors exist throughout the supply chain.

BLOCKING

Protect your business from competitors

What becomes dramatically obvious from the research into high growth companies is that they go the extra mile to protect their customer base from competitive erosion. They recognize that a solid base of recurring business from their existing customers provides resilience to their revenue streams, reduces their overall marketing spend per transaction, decreases lead times and improves their profitability. They achieve this state by building barriers to their competitors right across their supply chain.

We have been encouraged for many years to treat our current customers as our most valuable asset and yet few follow this wisdom. But, when you look at high growth companies you will see that they do exactly that. They have higher account penetration with more frequent usage but also greater cross-selling of complementary products. The level of referrals are significantly higher and customers are used widely for case studies and industry articles. If you want to move to this model, what is the path you should take?

You can of course develop protection through the normal regulated advantages: patents, trademarks, brands, copyright and licenses, but these forms of protection are not available in all markets. However, you can build stronger relationships with customers which can form a defence against competitor attack. Thus the supplier who builds a close relationship with the customer, understanding their business, tailoring their offering and working closely with them to resolve their problems, becomes a strategic partner who is valued above just the products or services they supply. As you build up contacts within the customer organisation, as you understand their requirement better and make it easier for them to do business with you, you entangle your business with theirs making the task of switching to another supplier stressful.

If you offer special cumulative discounts, agree to put aside manufacturing or service capacity, or build special features into your product or service to make usage easier, you are creating a higher switching cost for the customer. This can, of course, be highly desirable for the customer who gets a better, more effective solution with greater reliability of supply. Your advantage is that you get a longer term revenue source.

You can also protect yourself from competitors by gaining greater control over the customer point of purchase or by locking in an essential ingredient, component or knowledge content required to solve the customer problem. Your objective should be to build as many impediments to competitive attack as possible. Every element of protection should be designed to slow down the competitor and buy time, so that even a better resourced or more innovative competitor cannot gain easy access to your customers. This additional time then allows you the freedom to work on your own product and service offering to bring them back up to a leadership position.

Your customer's business is not yours by right; you have to earn it. Nor can you rely on that position being sacrosanct; you have to continuously prove that you deserve the business. You do this at the customer interface by making sure you serve them better than anyone else and, internally, to ensure you develop innovative products which keep you as the preferred supplier over time.

CUSTOMER VALUE

Create more value in your products

The most frustrating business to be in must be one that sells something that everyone else does. They end up competing on discounts and promotions and shave their margins just to survive. Unless they have some unique cheap source of supply or significant economies of scale, they are destined to struggle to survive. Yet, even in the most commoditized market, there are lots of things you can do to create additional value for your customers and thus increase your profitability and resilience.

If you simply think of a product from a utility point of view, you miss much of the value creation possibilities. Just think back to when you picked something out in a store and couldn't find anyone to assist you to pay for it. Remember when you wanted a specific item of kitchen equipment and couldn't track down who sold it. Or perhaps, you have had some frustration working your way through the maze of options in buying a mobile phone plan. Maybe you had a stressful experience getting something fixed or disposing of an old refrigerator. The fact is that, buying and using, are more complex activities than just solving a specific need. Buying and using are processes which create an experience for the customer. You create value by making that entire process a more interesting, productive and stress free experience, even if you sell a commodity product or service.

The majority of businesses simply do not understand the buying experience. If it was better understood, we wouldn't all be so annoyed, angry, frustrated, stressed or confused in many of our buying decisions. There is a vast consumer base out there desperate to find a business who understands what they are going through as they struggle to find a solution to their problems which doesn't use up so much time, is enjoyable and actually fixes the problem. The business which provides good accessible information to assist with choice and evaluation, has good availability, doesn't waste your time when you want answers or want to buy, helps you with good user instructions and then looks after you later on with efficient help desk and maintenance support is going to do very well and can charge higher prices as a result.

Creating greater customer value is really simple. All you need to do is start listening to your prospects and customers. What works for them and what don't they like? Why do they buy from you or from your competitors? What would make their life easier to buy and use? How do you make the search, evaluation and buying experience more productive, interesting and stress free? Be proactive – go out and find out how you can do better from the people who decide your fate - the customer.

Think of customer value and a series of components of which you get to choose and place emphasis on any number. What separates you from your competition? Where can you make a difference which moves you out of the 'also ran' to 'leader'? All it needs is a little imagination and some determination.

OUT THINK THE COMPETITOR

Avoid the competitor

There is nothing better in business than having the market all to yourself and no competitors. While that might be an ideal, working to avoid competitors is essential if times are hard and you have to fight for consumer dollars. Instead of engaging in promotions, discounts and rebates, you need to spend your time digging deeper into your niche market thus making it harder for possible competitors to come after you. Alternatively, you can find an obscure market and keep under the radar or you can work on the edge of emerging markets until the opposition catches up.

Beating the competition is only possible where you have an unassailable position such as that established by strong intellectual property or exclusive control over some essential ingredient or component. For most of us, we have to deal with competitors nipping at our heels. What we need to do is find a place where they aren't interested or which they haven't discovered.

Working in small markets which require complex solutions is a classic competitor avoidance strategy. Most companies seek room within their market to grow using the same product and service offerings. Thus markets of limited size don't offer them the growth prospects and they tend to leave them alone. Small markets can also be dominated by a leading niche market player thus leaving little room for someone to gain a profitable position. If, at the same time, you secure the market with long term contracts, high cost of switching or high customer loyalty, you can enjoy a premium price position for some time.

An alternate strategy is to look for emerging products which solve old problems much better or solve new problems where there are no other current solutions. Until the market becomes established, you can enjoy a relatively unhindered period. One technique to use in this strategy is to visit overseas trade shows looking for new products and securing the local rights.

If you have a strong loyal customer base, the customers themselves will reject the competitor approaches. Thus, high quality customer service, entangled relationships across many parts of both organisations, a long history of working together to resolve customer problems or just making it personal, will all help retain customer business.

If you have nothing better going for you than a product or service offering which is the same as the competitors, you are destined to fight it out on price. You are in the commodity business which is where margins are thin and business survival is low. You need to move yourself away to new markets, new products and longer term relationships with your customers. You may even need to find new customers but you might simply start by asking your current customers what more you can do for them. If you can find problems they need solutions for or unmet needs, you have the basis for a new direction.

Don't let your competitors dictate how you will run your business. You need to take charge of what you do and where you are going to ensure you move to a more protected environment where you worry more about how you can do a better job for your customers than looking over your shoulder worrying about your competitors.

EXPERTISE

Build deep expertise

Probably the most cited form of significant competitive advantage is the patent, possibly because the legal system allows you a period of time to exploit your invention. A similar protected right exists when you have a license to exploit, such as mining rights or forestry rights. These are a form of monopoly rights, nice to have but usually hard to get. Other forms of legal protection, but perhaps not as strong, come from trademarks and copyright. If you are lucky and can establish a strong brand or occupy a key location, you might also gain an advantage over your competitors. However, what about the rest of us, the vast majority? What we need to do is to build deep expertise to gain competitive advantage.

You always need to remember that, in life and in business, something which is hard to do will only be done by the few and not the many. Thus, when you create or acquire expert knowledge, you limit the number of firms or people who have the same level of competence or knowledge. Of course, this does not convey a competitive advantage if the demand exceeds supply but consider the opposite situation where the available source of supply is limited and the demand outstrips supply. You then have a situation where the market seeks to balance demand and supply and usually does this by increasing the price of the scarce commodity, in this case expert knowledge. Your firm with the deep expertise is now in a very privileged position. Not only does it have a greater ability to survive and prosper but it does so at a premium price.

If we apply this logic to general business strategy then we can gain a number of insights into survival and resilience strategies. Complex problems often require complex solutions or deep expertise to resolve them. In any sector there will always be a range of needs and problems including some which are more complex than others. By focusing on the more complex problems and building an expertise in satisfying the need, the smart firm is building a competitive advantage as well as a barrier to competition. Remember it takes time to build expertise and not everyone has the resources or staying power to do so. Thus the firm which does, limits its competition.

Generally complex problems are more urgent, have what we call a higher compelling need, are less price sensitive, have shorter sales cycles and have high reference value if the solution is of high quality. All characteristics of high growth potential firms. Thus in bad times, these firms will have a higher propensity to survive and in good times, a higher likelihood of substantial growth.

Take a good hard look at what you do right now. Is there a product or service which you offer which does require a considerable amount of expertise? Have you devoted enough resources to exploiting that expertise or is there more you can do to develop its market? You may have more potential than you realize.

PRICING

Implement Flexible pricing

When you take the $79 discount fare from Brisbane to Sydney, chances are that the person sitting next to you paid $279. Seated around you will be people traveling at a range of prices all sitting in similar seats, eating the same snacks and getting the same level of service you are enjoying. This situation is not unusual. You will find similar pricing models being used by rental cars agencies, hotels, cinemas, restaurants and cruise ships. It is all based on a pricing model called 'revenue management'. Basically, pricing is set to encourage a range of different consumers to buy based on a variety of conditions. Buy early, get a discount. Come to happy hour and get $1 off your drink. This is a very powerful sales tool. The question for you is – can you use this model in your business?

Revenue management can be used for any 'time expired asset'. That is, anything which you are paying for which is just sitting there waiting to be used. If it isn't used, it earns nothing but you still incur expenses for it to be available. Thus an airline seat, a theatre seat, a restaurant table, a rental car and so on, are all time expired assets. This concept applies to service based activities. Inventory retains its sales potential even if just sitting on the shelf, but the shelf doesn't. An hour of shelf time can never be recovered. The shelf space is only of limited quantity and we pay for it to be there and it needs to earn its way. If one product is not selling, we need to discount it, get it off the shelf and replace it with something which will give us a better return for our investment in shelf capacity.

You should not think that discounted prices mean selling cheaply. The objective is to increase revenue by differentiating the offering to each sector of the market. Typically you apply different conditions and different timing to segment the market. Thus a magazine could put premium prices on certain pages and locations. Prepayment and early payment might secure a different rate. Flexible locations would be less expensive and last minute space could be heavily discounted. Customers who are looking for a bargain have to take the risk of missing out. Remember, there are only a limited set of cheap tickets on airlines.

Any asset which sits idle gives you nothing in return but incurs costs. By using a little creativity, you should be able to come up with a pricing scheme which reflects consumer demand. For example, a plumber could charge three times his normal rate for a guaranteed appointment but only half that if he can come anytime he is available. Talk to your customers and find out what their views are. You will be surprised how much interest you will uncover. Think of price as a way of reflecting different forms of demand and package your services accordingly.

VERIFY

Ask your customers what you do?

Have you considered engaging your customers in your growth planning. Apart from the fact that your customers will probably be better off if you were more successful, they actually are your best source of information on what you do well and what you do poorly. Tapping into their knowledge of you might be the best information you can get on how to fine tune your business for growth.

The most effective way to grow is to focus on something you do well which gives you a competitive advantage, provides a premium pricing opportunity and has sufficient market potential that you can readily meet your growth objectives. However, we don't always know what we do well nor are we necessarily sensitive to what we are not doing well. If you are not getting regular customer feedback, you might be working under a mistaken belief that everything is going right. At least doing customer surveys will give you a first cut at your customer interface.

Smart business owners tap deeply into customer feedback to fine tune their offerings. In this regard you actually want timely, honest feedback. You don't just want the warm and fuzzy thanks when you really need to know where you are not performing effectively, what mistakes you are making, how you might be misleading customers or where you are setting the wrong expectations. Customer complaints should be high on the list for action. Every complaint is a trigger to what you need to investigate and fix. By staying on top of the complaints, you ensure that your employees and your customers know that quality of service is important – a very good message to your customers.

How about being a little bit more proactive. Find out about the customer experience. Could you improve it? What problems are they solving with your product or service and can you find a more effective way of solving the problem or meeting the need? Try asking them if there are other related products or services which they need. Could you add those to your portfolio? Are there other uses for your product or service which the customer is unaware of which could lead to an increased level of business for you?

Customers actually like being asked about their experience with your business and with your products or services. Most will willingly engage you in a conversation if they think you genuinely want the feedback to improve the customer experience. If you then take their comments and change the way you do business or improve the products or services as a result, you should let them know. They will be very pleased to know that their feedback was important and was used. Your reputation will be improved as a result.

You also should not forget that customer engagement is a form of competitor blocking. The customer who is remembered, who is asked for feedback and who sees improvements as a result of their interaction with you is receiving value in the exchange. This is a gentle form of entanglement where the customer has a stake in your business. They become emotionally attached to your business and feel good about dealing with you. That keeps them coming back. A great competitive advantage.

COMPLIANCE

Compliance solutions opens the door to other products

There are those products and services which we have to buy and then there are others which are nice to have. If you want to drive high growth, you need to offer something which customer have to have, where the purchase cannot be delayed or avoided. Nice situation to be in however most of us aren't that lucky, but what if you could ride on the back of such an item? What if you were able to sit alongside such a need with a complementary product and put your hand up and say 'me too'? While that may seem a bit light hearted, it is the strategy which is used by a lot of companies selling a portfolio of products.

The basic marketing strategy is to tap into the 'compelling need to buy'. That is, products or services which save peoples' lives, take away physical or mental pain or simply keep people out of jail. It is easy to see how life saving drugs fit into this group, but what about the rest of us. Think regulations! There are a huge number of regulations which govern almost everything we do from health and safety and road use to environmental issues. Whether it is a personal problem such as having third party insurance on your car or complying with the water restrictions, we all have big brother watching us. In business we are surrounded by regulations, some which will close us down if we fail to comply. The good thing about compelling need products is that there is little customer resistance, less price pressure and a shorter sales cycle time.

Obviously the best position to be in is to sell one of these life saving or compliance satisfying products or services, especially if yours is the only one or the best. However, another possibility is to sell alongside such a product or service. Often a compelling need sweeps other products and services along with it. The software company which sells a payroll system will often sell other applications at the same time, most of which are not as compelling. The accounting firm which offers audit services also offers a wide range of consulting and advisory services. Your dentist fixes your tooth and offers a whitening treatment as well.

Start by examining the regulations which govern your marketplace or the environment in which your target customer sits. What do they have to do? Can you find a product or service which meets that need or can you find a partner who has such a product where you can jointly offer your solution in the same sale transaction? Even if your product cannot be easily sold at the same time, you now have an open door to a customer and we all know it is easier to sell to an existing customer than to find a new one. Your opportunity is in the follow-up to the original sale when you can introduce a wider range of products and services. Piggybacking is not free but it can be very effective.

ENGAGEMENT

Entanglement – the key to customer relationships

Far too often we are advised that the only way we can create substantial competitive advantage is to build some unique intellectual property and have it registered as a patent or trademark. Unfortunately, this option is not open to most businesses and in fact, by itself, it is no guarantee of success. Most businesses don't have the uniqueness in their products or processes to go down that path, they need to find other forms of competitive advantage to drive their growth strategies. Once you move away from IP, you need to look very closely at how customer value is created to build a resilient customer connection. One method of creating a sustainable connection, which can be very successful, is customer entanglement.

We tend to forget that customers have multiple dimensions in how they see value. Too often we concentrate on utility or what a product or process does as the determinant of what the customer wants. Products which have close substitutes or competitors need to move beyond utility to find a competitive difference. Within the buyer experience there are many points where value can be created including product information, availability, warranty, maintenance, customer services, disposal and so on. Even where commodity products are sold, a supplier can make a difference with a different approach to the market.

When we start to connect to the customer, we tap into forms of value which relate to comfort and risk. A service which has less risk in shopping, delivery or use will find a market for those customers for whom risk reduction is important. When it comes to comfort, there are many elements relating to ease of use, empathy and personal relationships which may be important. Perhaps the most significant of these psychological benefits relates to what is called 'switching costs'. Switching costs relate to the costs, delays, effort and stress associated with moving from one product to the next. In some cases these costs are real such as the costs related to getting off one product and onto the next, such as moving data from one application to another and retraining staff. In other cases, it is the fear associated with making the wrong decision. Thus consumers stick to the same toothpaste, dentist and doctor.

We can build a switching cost effect through working closely with a customer across a complex product or process use. A vendor who understands how the customer works, what they prefer and adapts their products or services to make it easier for the customer to use the product or service is building a switching cost into their relationship. Where products are somewhat similar, the customer will generally stay with the supplier who understands their needs best or is easiest to work with. Established relationships are hard to compete against.

Where this is B2B and relationships exist at multiple points between the organisations, moving to another supplier can be disruptive, stressful and time-consuming. The vendor who adapts their product or service to use the customer's part numbers, processes or interfaces is building entanglement. The vendor who puts a representative on the customer site is doing the same. The concept of entanglement can be very powerful as a way of building customer loyalty, driving additional sales and creating a reluctance to switch.

LOST SALES

Are you tracking lost sales

Sometimes it is what we don't know which constrains our growth. If you only knew why some prospects weren't buying your product or service you could at least set about fixing some of the obvious deficiencies. While every lost sale is not critical, some will demonstrate fundamental or major weaknesses in your product or service offering. It is the ability to systematically track lost sales and to discover the underlying reasons for the losses which can provide a catalyst to improving sales and thus growth.

We can't always guess what goes on in the mind of the customer who walks away. I recall one situation where we lost sales to a less capable competitor only to discover that we were being rejected because our price was too low. We raised the price and sales picked up. The prospects didn't think we could possibly meet their requirements at our price point and didn't bother to investigate the product. I recall another time when we continually failed to close the deal because the prospects were unwilling to take on a large service project where there was no guarantee that they would secure their desired outcome. We repackaged the service into stages and asked them to commit to one stage at a time. The customer attidude changed dramatically and we lost few deals after that.

Whether you are tracking large project sales or high volume low value transactions, you should have a process which registers prospect interest or leads. It is the conversion of leads to sales which is the measure of your success. Every sale which fails to close is not only a lost profit opportunity but you have left someone in the market saying that you did not satisfy their need. Understanding the timing, location and situation which results in a lost sale may also be important. Are there specific salespersons or certain products or services which have a higher lost sale rate? Only by asking the lost customer will you be able to find out whether it is your staff, location, situation, product or service offering which is the cause.

Not all lost sales are recoverable or, in fact, failures. Clearly there are times when your prices are too expensive or the features and functions not right for a specific customer need. But perhaps this is also telling you something about setting the right expectations in the marketplace. What you should be aiming to do is to have a high conversion of leads to sales because you are attracting the right prospects. You can only do this properly by ensuring that your message is correct. One of the most useful outcomes of a lost sale survey is to find out if the prospect understood correctly what you offered. A prospect which you have to deal with only to find they were misinformed about what you do or offer is simply a waste of resources. On the flip side, you get to fine tune your message through this analysis to ensure you are putting out the right message.

LOCK OUT

Use long term contracts to lock out competitors

In our free enterprise system, would you willingly agree to give up your rights to engage with a competitor, or if you do, agree to a penalty for doing so? Absolutely not! – after all that is the entire basis of our economy. Wrong – you do it all the time. Think about your mobile phone plan. You sign yourself up for one to two years and agree to an early cancellation penalty. Other agreements may require some period of notice before you can cancel. Try paying off your mortgage early. Some loan agreements have nasty early termination clauses. The fact is, locking out competitors is normal. Since it is clearly legal, can you use such a technique in your own business?

What happens when we agree to work under such contracts is that we trade our right to switch to a competitor at no cost for some other benefits. This may be a lower per minute charge on our mobile phone, a free handset or free weekend calls to nominated phone numbers. We avoid some set up costs on our mortgage if we agree a termination payment. You would normally sign up for a software maintenance and support contract for a year and forgo a refund if you opted out early, but you do get a lower monthly rate.

Many businesses work to secure long term commitments from customers and in return give them something in return. A manufacturer might agree a reserved capacity for a minimum annual order level. A wholesaler might agree to hold a specified level of inventory for a guaranteed monthly purchase order. A services company might agree to locating a consultant on-site in return for a longer term support contract.

What you need to work out is which risks you can mitigate or negate of your customer by changing your commitment to them and then what do you want in return. You need to move to a cooperative engagement where both parties gain something by entering into a longer term commitment. On your end, you may offer price discounts, reserved capacity, time to respond, minimum inventory levels, custom design, access to internal information, interfacing of systems across company boundaries and so on. What would you like in return? Most suppliers are looking for certainty in their forward customer orders. The greater the certainty of sales forecast, the easier it is to plan workloads, staffing levels, finance requirements and so on. Both parties have much to gain by entering into a preferred supplier/customer agreement.

There can be no question that this is a competitor blocking technique. Once you have the customer locked in, they wont be dealing with your competitors during the period of the agreement, although you still have to deliver your end of the agreement. However, remember that your competitors may be doing the same so you really do have to offer something the customer needs to get them to sign up. The need for a strong competitive advantage doesn’t go away but you might be able to buy some time to improve your own.

SWITCHING COSTS

Switching costs make it harder for the competitor to steal your customer

If you have ever moved your banking business you will have experienced penalties, stress, frustration, endless paperwork and the pain of setting up all your direct debits all over again. This is a classic example of a competitive advantage called ‘switching cost’, something we are all too familiar with but often neglect to apply to our own business.

Switching costs refer to the time, costs, delays, frustrations, stress and disruption associated with moving from one supplier to the next. Sometimes it is just a termination penalty but it could be a wholesale revamp of your business. Imagine what is involved in moving yourself off an SAP platform to install an Oracle enterprise wide application system. You are seriously talking about millions of dollars and several months if not years of disruption. You have to retrain your staff, redesign internal systems and export and then import all the historical data. No small task. A classic case of high switching cost.

What we want in business is for the competitors’ customers to move easily to us but for ours to think hard before they move away. Usually, similar switching costs apply to all the firms within a sector, but there is nothing to stop you building some additional ones. You just need to be a little creative. Think carefully about all the elements of switching. Remember it is not just cost, it is also time, disruption and, sometimes, friendships.

To be really effective in this element of competitive advantage, you have to embed yourself in your customer’s business. How integrated are you to their operations? How entangled is their business with yours? To what extent are you a partner to them rather than just a supplier? How much do they depend on you for supplies but also advice, help, and even social intercourse? How many of your staff interact with members of the customer’s organisation? How much do you know about their business and how well do you integrate that information in the way you work with them?

At a very simple level, we stick with what we know and what works for us because of the time and trouble it takes to evaluate the alternatives. If something works, we prefer to leave well enough alone. The flip side is the risk that we take when we switch to something new. What if we make the wrong decision? What if we end up losing our preferred position where we are currently. You need to make both of these attributes of switching cost work for you. Increase the time, cost and so on of switching but, at the same time, make it easy and comfortable for the customer to deal with you right now.

In many ways your customer is yours to keep if you do a good quality job and satisfy their needs. Don't give them a reason to go looking for an alternative but ensure that when they do, they need to think carefully about the switching costs of doing so.

PART THREE: MANAGING RISKS

In business you need to be prepared for good luck and bad luck. It may seem surpirsing that good luck can cause problems, but many firms have been in trouble for taking on more than they can manage. With bad luck you need to react and react quickly. Operations can quickly spiral out of control. The firm needs to be able to monitor trends and to forsee problems as much as possible. Forewarned is forearmed.

WORST CASE SCENARIOS

Make sure you develop worst case scenarios

I often wonder whether Murphy's Law is the thing which keeps entrepreneurs awake at night. The number of times that I have turned up at the office to discover that my nice comfortable world has been turned upside down is too many to count. Whether it is a resignation sitting on my desk, a notice to say my best customer has filed for bankruptcy or the elusive cheque in the mail that didn't make it, you simply cannot guarantee that you wont get a surprise everyday. If you are really unlucky, you will get a day with several of these shocks all coming together – that is the day you wished you were a dentist or lawyer, or maybe even an employee letting someone else deal with the problems.

However, sooner or later we wake up to the fact that things will go wrong, often unexpectedly, and that we need to plan for such outcomes. Thus, the planning process which, ideally, produces an elegant solution to our growth plans has to be reworked to ensure that we can survive and recover from things that go wrong. We need to build into our analysis of our operations an understanding of the impact of delays, overruns, failures, lost deals, resignations, missed deliveries and so on. It is not that we need to dwell on the negative but that we should be sensitive to things going wrong and the implications on the rest of the business if that happens.

A business with some resilience and resource slack can withstand normal bumps in the road. You expect that some things will go wrong just in the normal course of events. The planning process, however, should go beyond this to consider those disruptions which could fundamentally throw the business of track, or at least, uncover those outcomes which would substantially undermine normal progress.

In my last business, we prepared a worst case cash flow and sales analysis every month. This became the most important management report we would use. It enabled us to decide very quickly what decisions we had to make and what could be deferred. We would not invest in capital equipment, market expansion or recruitment unless we understood the risks involved. The worst cases scenario provided the means whereby we uncovered most of our future risks.

No one wants to be the doom and gloom person in an executive team and it is very hard to motivate people if you focus on what can go wrong. Instead, you might set this up as a rotating role within the team. Each month ask a different person to act as devil's advocate to test out the underlying assumptions in the plan and to ask some hard questions. Since this is a designated task, no one should feel bad about taking their turn. The lessons learned from being proactive at looking for problems will also improve their own planning capability.

In planning, you need to see Murphy as your friend not your foe!

SURVIVAL

You have to survive to play the game

I have always been interested to find out what business owners say is their number one management priority. You get the normal responses; profitability, growth, a great place to work, exporting and so on. But what they forget is that they don't get to do anything unless they survive. However, no one ever mentions survival! In my view, the priorities should always begin with business resilience. That is, you have got to take some time out from chasing growth and profitability to build a business which can survive some hard knocks. Of course, this forces you to confront the question of what survival might mean to you. Then you have to work out how you are going to structure your business to protect that base business.

What if you lost your largest customer, the regulations governing your business changed or a large competitor came into your market? Your revenue is down, profits have gone out the door, staff are brushing up their resumes and you are desperately trying to cover payroll. When the dust settles, what do you want to be left with that will enable you to bounce back when the market picks up? Is it a specific group of people? Is it a designated strategic customer? Do you want to protect a core capability? You need to create a picture of what the business needs to look like in your most difficult market situation. Now start putting in the plans to protect that base business.

This type of planning is not the same as planning for growth, profitability or market expansion. What we are trying to do here is to work out how to batten down the hatches to survive the storm so that, when the sun shines again, we are off and running. In my last business, I needed to protect my ability to service my existing customers and to protect my core R&D capability. I was prepared to forgo my own salary but I knew it would be near impossible to replace the highly competent development staff if I lost them. I also needed to protect my customer base as that was my long term recurring revenue. Once we had worked out what we needed to protect, we then put in place programs to move customers to long term support contracts and to have consulting projects available so that we could rent out our developers if cash was tight.

Each business will have a different view on what this base business needs to contain. You will need to examine your expenses, revenues, relationships and capabilities to work out what you would do in the event of a serious downturn. What can you do? What should you do? Then build into your strategic planning the 'just in case' scenario. You only have to go through a really nasty patch once to know that protecting the business has to be your number one priority.

CASH IS KING

Think Cash Flow

No company has to go out of business if it has a positive cash flow but the economy is littered with the wrecks of profitable companies who ran out of cash. All too often we forget about the fundamentals - cash is king. It doesn't matter how fast you grow or how profitable you are, if you run out of cash you are dead!

How is that possible? How can you be growing, profitable, hitting all your goals and yet hit a brick wall. Very simply – cash flow is a very different dynamic in business to making profit. While they are inexplicably linked – that is, eventually you will generate more cash in than cash out if you continue to be profitable, but cash flows over a short term can fluctuate widely. Always remember that profit is the summation of many different accounting elements, including the allocation of historical costs in depreciation and amortization, which often represent small current expenses but large past cash outflows or large current cash and small current expenses. All very confusing to the business owner who is wondering what happened to the profit. Also, you make a profit when you sell on credit but that doesn't mean you see the cash inflow for some time. It is very easy to get mesmerized by increasing credit sales and forget that you need the cash to pay payroll and rent.

Survival tactics start with cash discipline. Whatever you do or plan to do, translate it into a cash flow effect. On a periodic basis, once a week or a month depending on the volatility of your business, put all the cash effects together into an overall cash flow. You will be surprised what you can learn about your business by doing so. Try some simulation on the overall picture. Keep the committed expenses but try flexing the sales numbers up and down. Change the credit days for sales and purchases to see what impact it has on working capital. Break expenses and capital purchases down into their degree of discretion and see what outflows can be delayed without hurting the business. If you have excess cash, what development costs could you bring forward to improve your business?

Cash forecasting is the most valuable survival report in your management toolkit and is more likely to prompt you to make urgent changes in your business than any other metric you will use. Don't be a stranger to your banker. Use the cash flow and the simulation results to keep the bank informed of your progress and use it as an early warning device to prompt discussions around a line of credit if you need one, especially if you are growing and profitable but need a facility to cover short term cash shortages. Banks don't like surprises but they do like to see good management practices and an understanding of business dynamics.

A lot of accounting reports are historical and it is often just too late to identify and resolve a problem by the time you get them. The reason why I favour the cash flow forecast is that it is an early warning system that allows me to take decisions which can change the future.

BENCHMARKING

Try some benchmarking

When we are deep in the business and working hard to stay on top of day to day issues, we often forget that we are not that unique. We should be asking ourselves - how are we performing compared to businesses just like ourselves? When we tap into data about of similar firms we can discover insights about our own business, such as, what do we do well and where are we falling behind. If we can find out where improvements can be readily made, we can make a difference to our business survival and profitability.

This is where benchmarking really can make a difference between a business running at a profit and one making a loss. Often we are so close to the tress that we are not able to step back and see where we need to put our efforts. Benchmarking helps by allowing us the opportunity to compare our performance over a wide range of business metrics with other firms just like ourselves. If we could match up our business with tens if not hundreds of similar businesses, we would learn a lot about our business. What we do well will stand out as the data will show us that our performance is above average, but to improve, we need to focus on what we are not doing well.

There are lots of benchmarking programs – just do a Google search and you will find them. Start by asking your industry association for some contacts and then check out local, state and federal programs. Some universities run programs for specific industries. There are quite a few commercial ones but they are more expensive to join. Don't limit yourself to local ones, firms in the same sector look very similar around the world. While the revenue numbers might be in a different currency, many of the business metrics will be the same. To take part, all you need to do is measure what you do and then compare it to others in your sector.

Even without joining a formal program you can do a lot informally. Many business owners benefit from peer to peer conversations. You can gain real insights into common business problems just by sharing information with people in the same position as yourself. Even competitors will share information if it is of a general nature or something which, as an industry, you are all grappling with. Try to find business owners in similar firms in other regions who are willing to meet periodically to share information. Similar businesses face the same problems.

What we need to do is to have a conversations with like people. Sharing is essential if we are to learn from others. However, to do it properly, you need to be armed with your own performance data, so begin the journey by ensuring you are measuring your activity levels. The next step is to use that information to compare yourself to others in your sector. You will be surprised how rewarding such conversations can be.

PLAN AHEAD

Plan ahead for a downturn

Too often when we are desperate for business we take on activities or projects which later turn out to be sub-optimal. Either they end up draining our cash, creating a loss or both. In the pursuit of short term revenue we overlook the most basic of all objectives, we have to put survival first on our list of objectives.

Our choices when we are facing a downturn in business are often limited. Generally we can reduce expenditures, increase revenue or do both. However, often action is left too late to influence revenue and thus the only choice is to cut expenses. Even so, when it comes to identifying what expenses to cut, what we find is that we have a long list of commitments which we can't get out of, such as leases, service contracts and accumulated entitlements and so on. The choices open to us close up very quickly and the pruning we had hoped to make is often taken where we least want to cut back – good employees.

Planning for cutbacks should be undertaken on a regular basis since we can never know what changes will occur in the economic environment or our local commercial situation. We should be testing out our planning assumptions to see what would happen to our business in the event of various levels of revenue decline. Thus what impact would a 10%, 20% and 50% decline in orders have on your business. Few business trade at such health margins that they would be unaffected by a hefty decline in revenue.

With a little bit of simulation, you can see the impact on your inventory, manufacturing plant utilisation, staffing levels, warehouse capacity and so on. What should become quickly apparent are that your growth model might lead you to a set of commitments which will create impediments for cost cutting in a downturn. In light of those insights you should consider how you can achieve your growth objectives but introduce more flexibility into your business. Thus instead of building a new warehouse could you lease one with an option to terminate. Could you take on more casual employees or self employed consultants to give yourself some leeway to flex your employment levels. Are you able to lease our part of your warehouse or manufacturing capacity in the event of under-utilisation.

Remember that generating new revenue can offset the need to cut back on expenses. Consider how you might bring in short term revenue in a downturn. Can you lease out office or warehouse space, contract out skilled employees to others in your sector who have projects, take on short term assignments with your regular customers or even increase the price of certain products which are not price sensitive.

If you want to survive a downturn you need a contingency plan which cuts back on expenses and generates new revenue but you need to do it in manner which allows you to come back quickly when the market picks up. Look for flexibility in your commitments and alternatives which give you more options.

KEEP IT SIMPLE

Simplify, reengineer and design out costs to increase margins

Most times, simpler is better. In a business context I mean products, processes and strategies. Basically, when you make things simpler they are easier to do, manage, build, sell and maintain. That does not mean that you need to compromise functionality or productivity, only that you should constantly seek out ways to achieve the same end with less steps, less parts and less complexity. The benefits are less mistakes, fewer recalls, higher quality and productivity.

If we except that every step in a process or each part in a product has a small probability of an error, mistake or defect, then the more steps you have or the more parts you have , the greater the probability of a problem occurring. So as a management discipline we should be seeking out ways to simplify designs by reducing the number of parts, reducing the number of steps in a transaction and reducing the number of elements we need to control in our business strategy.

Whether your approach is through design engineering or quality management, your objective should be to improve your business processes and outcomes. You need to instil a culture in your business where everyone is on the lookout for opportunities to make things simpler. Think of the now famous kaizen approach to continuous improvement. While this came to notice primarily through the car manufacturing industry, the concept of constantly seeking out minor improvements can be applied to every part of a business.

One technique which you could implement is that of the marginal constraint. Basically, you seek to find the initial barrier to improvement and work on that until it is eliminated. The exercise then starts again until the next barrier is found. Whether you are reducing time to assemble or time to process a transaction, something will constrain your ability to achieve greater productivity. Using a variety of creative techniques, you look for a way to eliminate the constraint. Think of designing a kitchen. Can you reduce the number of steps you need to take to assemble all your ingredients and utensils or the amount of time you need to devote to putting items away when you wash up? By making small incremental adjustments, we gradually improve productivity.

Design engineering seeks to improve or retain functionality by reducing the number of parts, especially those parts which have the highest failure rates. Find those parts of the product which have the greatest incidence of failure and find ways to design them out, reduce their impact or improve their time between failure. A systematic approach to failure reduction will make small incremental improvements which, over time, will make a significant impact on quality levels.

We often make life too difficult for ourselves in business. We take on too many projects, work in too many markets and offer too many options. Take an 80/20 view of the business. Can you be more productive, more profitable and achieve higher growth rates by reducing complexity?

SUCCESSION PLAN

Develop succession planning

Running your own business is a bit like riding a roller coaster, except you thought you were signing up for a ride in a chauffeur driven car. Every day brings a new surprise, some good and some bad but perhaps the worst shock is when your best employee announces that they are off for another job, back to full-time study or going to Tibet to meditate. All this just when you had decided to promote them to a management position. There goes another good day!

Actually we shouldn't be surprised when people move on, it is the nature of a life journey. But it certainly can take the fun out of the business day. Given that it happens all the time, I wonder how many of us actually build a succession plan to mitigate the damage. We are expected to plan for risks in the business and this is surely just another risk.

Some level of succession planning happens in the ordinary course of business. We expect people to get ill occasionally and we know they are going to take vacations, so we do arrange cover for them during those periods. It is just that we anticipate they will come back so our arrangements are only temporary. However, we can extend that horizon with some cross skilling, regular reassignment to allow people to learn new functions and understand the business better or giving them new challenges to stretch their capabilities. However, in the end there is no real substitute for a full succession plan.

If you need an additional justification, don't just think of succession as a plan for a termination, think of it as cover to build flexibility into the business. Unless you can free up some of your best resources for an extended period of time, you can't really take on large restructuring projects such as an acquisition, raising finance or selling part or all of the business. There are a number of strategic projects which require a dedicated level of effort for a concentrated period of them. Unless the key people can be freed up of their everyday activities, you can't really pursue these projects. Further, you can't always plan when they may occur. An acquisition opportunity may simple drop into your lap. Senior managers need to be able to drop what they are doing and concentrate on evaluating, negotiating and managing the new acquisition.

Sometimes you can obtain resources from outside the firm to step in to take over a role, but it is hard to do that at the last minute. These things need to be carefully planned and arrangements prepared. For the bulk of staff, you need to have a plan for what you would do if they became chronically ill or resigned. This is one of those situations where ‘Sorry!’ really doesn’t cut it. These situations can be anticipated and therefore basic risk management and good governance would dictate that you should have at lest considered the situation and decided what you would do if the occasion arises. You cannot effectively drive a growth agenda if you can so easily be disrupted.

BOOTSTRAPPING

Cash bootstrapping

Growth businesses are well known for consuming whatever amounts of cash that can be thrown at them. Whether it is product, market or staff development or simply buying infrastructure to stay ahead of the curve, the business never seems to generate enough cash to fuel the needs. With most ventures these days being knowledge based, the tangible assets are not there to borrow against so most firms have great difficulty funding expansion. This is where bootstrap financing plays a vital role.

Bootstrapping techniques are often referred to as ‘highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources’. Every successful entrepreneur, professional advisor and business educator will chant ‘cash is king’ but few will give you hard and fast rules for how to manipulate your business to gain maximum productivity out of the cash you do have. I suspect more businesses have failed through insolvency than having a poor business concept. Even firms that are growing and profitable sometimes end up insolvent through the mismanagement of their cash resources.

Certainly it starts with a cash flow projection based on reasonable sales forecasts and normal terms of trade with both customers and suppliers. If that results in a continuous positive cash flow – good luck because few companies have that luxury. However, try building some best and worst case scenarios to see whether the same cash buffer is maintained. For most firms, the result of the cash flow analysis shows a thin margin of cash or a shortage. Now start the work to build a cash buffer.

Most cash flow adjustments only have a short term effect. That is, once you have made the change, there is an immediate cash flow gain but the fundamentals of the business will kick in and you will be back where you started after a short period. Thus most adjustments are useful for a short term cash problem but they don’t solve the fundamental cash problems in the business. To fix those you need to change the business model.

Start with expenses as they are normally the easiest to influence. Naturally you should look to discretionary costs. What costs can you cut out, reduce or delay that can reduce your cash outflow? Look at the payment terms that you are being offered from your suppliers. Can you alter the timing of the payments by paying in stages; that is paying less but more frequently? Can you negotiate to change the payment period? A delay may make all the difference to a short term cash problem. Can you join a buying group and get an additional discount by consolidating purchases?

On the revenue side - look at your aged debtors and see what changes you can make to your payment terms to speed up payment. Think about introducing a deposit or increasing it; reduce your normal payment terms; follow up invoicing with a phone call to ensure there are no problems with payment and actively pursue late payers. You might wish to offer a cash discount or an early payment discount to bring cash in quicker. Cease doing business with regular defaulters as they are mostly unprofitable businesses anyway and they use up too much of your time chasing them for your money. Instead, focus your efforts on working with customers who pay on time. Some businesses sell off their receivables for immediate cash (factoring) and avoid having to bother with the collection administration costs. Others charge interest on overdue accounts to encourage on time payment and collect additional cash when payment is late.

You can always gain short term finance by borrowing on business or personal credit cards, but of course that does increase the debts of the business. One way of conserving cash for a rainy day is to lease or rent rather than buy. Some firms delay paying their taxes but this should be avoided as it can lead to bad practices and ultimately serious consequences. If you can’t pay your taxes when due, you should seriously consider winding up the business or selling out.

One technique I used in the early days of my first venture was to dramatically reduce the salaries of the founder shareholders. Basically there was not enough cash to pay ourselves as well as build the business. This is not an uncommon practice, although you should note that you will rarely be able to recoup the lost wages. In the first 9 months of my first business I worked on a very lucrative consulting contract that paid the salaries of 5 people to help start the business. From then on, I was always sensitive to having some flexibility of being able to switch staff in product development to external chargeable work if the business faced a cash crisis. The good news was that it avoided making staff redundant.

Greg Loudoun, Founder and CEO of Acumen International that provides the FastTrac management development program for business owners, says that a major source of business failure is that business owners believe that profit is cash. “As we know, profit is an opinion and cash is a fact. Business owners often think cash left over after they pay their immediate expenses is available for discretionary spending without understanding that the cash available to the owner is the amount left after all liabilities, including tax, have been provided for.”

If the cash problems persist over a longer period, the basic business needs to be scrutinized to see what changes can be made to generate greater margins. Cash is the life blood of the enterprise and should be monitored constantly; it is the key factor in business survival.

PART FOUR: SUSTAINABILITY

What you need to do in business is build a wall - a wall of blocks to competitors. Each brick provides one more element of protection. The more bricks you have, the greater the blocking power agaist competitors. The other thing you gain with more bricks is time. That is time to react to a competitor threat and time to bring something else to the business which will counter the competitor.

PROTECTING EXIT VALUE

Reduce risks to the buyer on exit

Whether it is a financial or strategic exit, the premium on sale is usually delivered through the growth potential of the business being sold. In the case of a financial sale, it is the potential revenue and profit growth from the existing business and in new areas of growth which will drive the premium on sale. Protecting the existing business and enhancing the competitive position of new business is critical to securing the premium on sale. In the case of a strategic sale, the vendor has to ensure the buyer has time to exploit the strategic assets and capabilities being transferred with the sale. In both cases, providing greater protection to future revenue streams enhances the sale proposition but also reduces the risk to the buyer.

Identifying strategic assets and capabilities which can underpin a strategic sale strategy is a key part of preparing the business for a strategic exit. However, unless the buyer has some reasonable time to exploit the high growth potential, the strategic value will be undermined. An important part of our preparation for sale and a critical part of the message to be delivered to the potential buyer must be that the seller can offer a sustainable competitive advantage for the assets or capabilities beyond the sale date to convince the buyer to pay strategic value in the deal.

High growth is most often achieved by seizing a segment of a market and protecting it rather than chasing a large potential market where the venture has marginal competitive advantages. The business which can gain a strong foothold in part of a market often has the luxury of time to work out how best to grow the business. While many entrepreneurs focus on growth strategies, the smart ones build a wall around their business which can protect them and allow them to exploit the underlying potential in their products and processes. The vendor needs to construct the foundations for such a wall for the buyer to allow them time to exploit their acquisition.

Once the sustainability conditions are established, the entrepreneur then should think about how best to position the asset or capability for growth. Many owners are so focused on the next deal or short term gains that they forget to structure their businesses for growth. This involves packaging and structuring the product or service so that it can be rapidly scaled and /or replicated as well as putting in the other elements to enable the new buyer to exploit its potential. We will be looking at enabling strategies in a later chapter.

SUSTAINABILITY CHARACTERISTICS

Use the whole supply chain for protection

There are two critical factors in sustaining a growth strategy; getting the business and keeping the business. The size of the market or the growth in the market does not guarantee you will have a share in it and your competitive advantage today may not be a competitive advantage next year. Your major threat may be that your best customers may be purchasing from your competitor next time they buy.

Most entrepreneurs understand the concepts associated with creating a competitive advantage to win the business in the first place, few however, seem to understand what action they should or can take to protect that business from competitors. Protecting the growth potential in the business is critical to generating a high premium on sale. This is especially important in fast paced businesses where product innovation is rapid.

The basic principal behind sustainable competitive advantage is to ensure you have the only viable solution which can solve the critical need of your target customer. You don't necessarily need to have the best solution, only the one which your customer is willing or able to buy. Basically, you need to deny your competitors access to your customer base by building a wall around the supply chain to the customer.

Competitive advantages are transient. There are numerous forces acting within markets which will undermine competitive positions. These include such factors as;

- Expiration of patents, licenses and copyrights
- New inventions which provide better, cheaper and/or more effective solutions
- New processes which increase productivity or provide new benefits
- New ways of doing business which customers prefer
- Competition arising from more open trade agreements

Thus a strong position at one point in time may be eroded either by the passage of time or by new products and/or new competitors coming into the market. Competing in any market with a constant stream of new products and penetrating new markets is hard work and fighting it out prospect by prospect puts a considerable strain on the business and it's staff. In the absence of some overpowering long term competitive advantage which allows the business some margin for error, you are going to have to battle for each new customer.

Few businesses have the ability to sustain a superior competitive advantage which will ensure a constant stream of new customers. To survive the downturns and competitive attacks you need to build a buffer which will give you time to regroup and come back with new products and/or services. That buffer needs to be built from the existing customer base through recurring revenue, cross selling and account penetration. In order to do that, you need to protect your current customer base from erosion, even in the face of superior products or services from your competition. The task of the entrepreneur is to anticipate new competitors, better products and new business models and to create barriers to these so the current customers either can't move or don't want to move to a competitor.

Many entrepreneurs think their business is sufficiently protected by having a superior product or service or by making the product or services offering different in some way from their competitors. This is normally achieved through a combination of features and functions which customers value or it could be through superior customer service, availability, after sales support and so on. It is highly likely that a winning combination can help secure the initial sale, however, this does not stop the competitor from copying what you do, maybe doing it better and then chipping away at your customer base.

Some entrepreneurs are mesmerized by the size of the potential market. They take comfort in the fact that there will always be new customers to sell to. They seem to think that because there are large numbers of potential customers, they have some divine right to get their share of the potential customers as they pass by. However, the rate of company failures would suggest otherwise. It is not just the competitors you can see that should give you cause for concern; it is new entrants which come into your market with a different business model which can turn an industry on its head. Your hard won competitive advantage goes out the door and your current customer base is under attack. Holding onto your current customers and protecting your recurring revenue is an imperative for survival. The firm which has not bothered to block off the competitors will be the most vulnerable to such changes.

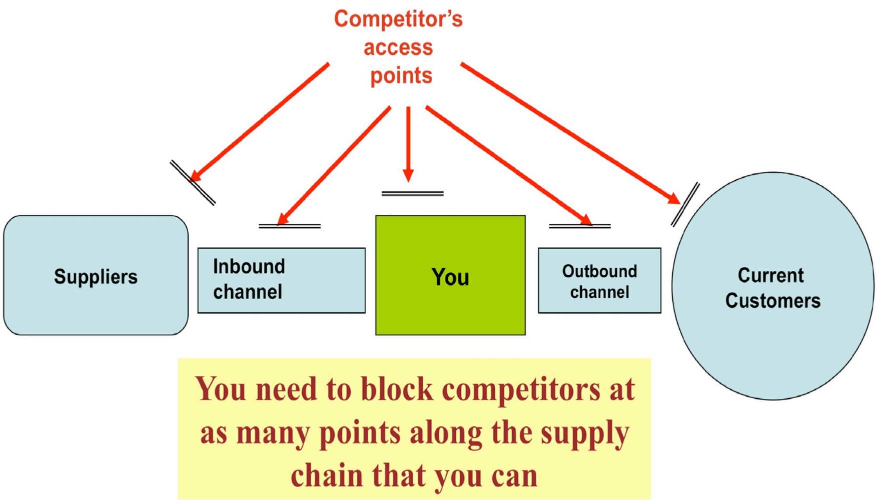
Many entrepreneurs search for the holy grail of ‘first mover advantage’. Certainly being first to market can often provide a business with an opportunity to gain premium prices. For example; new markets can sometimes be readily harvested if the new business solves an important problem. Early demand often allows ‘cherry picking’ – taking those with the highest needs or those who are the most innovative as early customers. First mover advantages are most often associated with new inventions but can also be associated with new ways of doing business. However, there is nothing in this strategy which suggests that you can sustain the initial advantage. Once competitors imitate your product or service, they can attack your customer base.

Whether you have an overpowering competitive advantage or not, you should still implement blocking mechanisms to protect current customer business. The planning question is; “What is going to stop my competitors taking away my customers?”

You need to block competitor’s access to your supply chain.

PROTECTING THE BUSINESS

Block the competitor wherever you can



Blocking out competitors 100% is an ideal. It is unlikely you can develop a business concept which can protect you from competitors over a very long period of time. However, having an understanding of the ultimate or ideal techniques of protection can help you to identify ways in which you can protect your business from competitors. Each link in the supply chain from component to customer provides you with opportunities to block competitors. Any link which is blocked from competitor access may be sufficient to protect the business. Combinations of blocking techniques over several links will increase the probability of success.

The objective of a blocking strategy is to find ways to protect each link in the supply chain so that a competitor is denied access. Where that is not 100%, you want to make it difficult, time consuming or expensive to overcome your blocking factors thus limiting the erosion of current customers. For example, if you have an early warning of an approach to a customer, but the competitor has to do a lot of work to undermine your position, you have the opportunity of working with the customer to create further impediments.

Customer Blocking Techniques

Most firms have repeat sales to their existing customers. Once the initial sale is made, you need to move immediately to closing the door behind you to your competitors. You need to construct a situation which will ensure future purchases are sent your way and not to your competitors. If you can prevent your competitors from selling to your customers, you have effectively protected that part of your income stream. Your objective is to lock down your customer so they have no choice but to buy from you even when your competitor introduces a better product or service which could more effectively satisfy the customer's needs. I am not suggesting you do anything illegal or unethical to gain the business, only that you undertake sensible and legal blocking techniques.

Clearly the most effective way to lock down the customer is through an exclusive purchase agreement. This need not be to the customer's detriment. There are some very good reasons why the customer may allow or even encourage this arrangement

- Reduction in costs of preparing procurement agreements
- Economies of scale in ordering, freight, receiving and storage
- High learning curve costs in understanding the complexities of each organization, their ordering and fulfilment processes
- Time and resources required in building relationships at multiple layers in each firm
- High start up costs in bringing on a new technology or process. This could involve organisational changes, data conversion and training costs.
- Committed capacity to customer's business

Many companies have implemented single source procurement agreements to provide stability with their suppliers and to show that long term relationships are more important than short term cost savings. It is very common for this structure to be used to implement the exchange of intellectual property, joint design teams and sharing of cost savings.

This arrangement can be sold to the customer if the customer can be convinced that such an exclusive agreement is in their long term interest. The customer has to be presented with a convincing argument of benefits, economies or efficiencies which would accrue to them from locking themselves into such a relationship. This is the ultimate in customer lock-in and the time taken to design products, services and relationships with this end in mind can be the key to long term protection of recurring revenue. The sales process needs to see long term protection of recurring revenue to be as important as the initial sale. Once the relationship is in place, not only will it protect repeat purchases of the same products or service but it can result in lower cost of sales for cross selling products and services.

Some corporate customers are prepared to agree long term procurement agreements in return for discounts, additional customer services or simply to keep life simple. Many corporate buyers believe in building relationships with a smaller number of suppliers in order to gain better attention from the supplier and to ultimately drive costs down and improve quality by working together on procurement programs. You should try to move a preferred supplier agreement to an exclusive arrangement.

Complex products which require considerable up front installation and on-going support are also effective ways of capturing customers over a long period. The 'switching costs', which includes costs, time and stress of moving to another product, can often be very high, thus once sold, customers tend to stay with the initial supplier for a long time. This relationship can be used to leverage cross selling opportunities, especially where additional products can be easily integrated into systems or products already in place. Many software products fit this category.

Some products have a lock in feature due to the conditions under which they are acquired. Life insurance and health insurance, for example, can be prohibitive to change if personal circumstances change and a new policy would be difficult and/or costly to acquire. To retain the benefits, the customer has to stay with their existing policy.

While not 100% perfect, many membership programs create some form of lock in for the customer. Airline frequent flyer programs or store frequent purchaser programs attempt to create loyalty and to provide the customer with additional benefits which only accrue with frequent or volume purchases.

Example:

Arthur Leontaritis, former part owner of the Basque tapas and wine bar in lower Chapel Street in Melbourne, was highly enthusiastic about his loyalty program. They gave one free coffee for every 6 purchased. "We have been open since September 2003 and introduced the loyalty cards about three months later" said Arthur. "The effect on the business is significant. At the time of introduction we were doing about 9-10 KG of coffee per week, now we do 15 – 20 KG. Our takings are up 4 fold." Arthur was emphatic about the effect of the loyalty cards. "We get about 80% to 90% retention due to the program. There are a lot of good coffee houses in this street. These cards really make a difference"

Outbound Distribution Channel Blocking Techniques

Gaining control over the point of sale to the customer is an effective way of controlling the customer purchase. While the customer may have a range of choices in theory, they may be willing to limit their choice through a preference for a particular method or place of purchase. The corporation which habitually buys office supplies from Office Works or Office Depot chooses only from those products stocked there. When they use a mail order catalogue, they limit their choice to the products listed. A customer who only buys groceries at the local supermarket is restricted to the product range offered. When you choose your mobile phone company you may limit which mobile phones you can use.

Gaining access to a preferred channel, or owning or controlling a preferred channel, gives you effective control over the final purchase. The question which the seller needs to ask is "Where does my customer buy?" Can you then construct a blocking strategy so that you are the product or service of choice? If you are the only product in your category at Office Works or Toys R Us, then you have greater influence over the ultimate customer purchase. Supermarkets understand this and use shelf space as a bargaining chip with their suppliers.

Internet sites which have frequent return rates provide sellers with a greater chance of selling to the loyal user. Internet portals like Yahoo or MSN can be used to offer customers limited choice. While this does not deny customers the right to go elsewhere, the purchase decision is made easier where access is already set up through a favourite portal. If you can be the only product in a category offered by such sites, you have some control over the channel to the customer.

Airline booking systems can act as channel conduits. Some customers will prefer to have all their flights managed through the one system rather than have to deal with multiple carriers themselves. Linkages through such systems to hotels and rental cars can provide the secondary service providers with advantages.

You might be able to use the synergies of an existing preferred channel to reduce costs and gain premium profits or lower your price and undercut competitors. Some firms are able to significantly reduce their costs by using distribution channels which already serve the desired customer. A firm which introduces a new product to an existing distribution channel need only recoup the marginal costs of using that channel. Excess capacity in the channel can be used to cross sell additional products thus achieving deeper account penetration.

Supplier Blocking Techniques

Owning, controlling or being able to influence the availability of a limited, unique or rare input can give you effective control over the entire supply chain. Companies which have integrated backwards to own specialist components or rare commodities have greater influence over the consumer buying decision than competitors who must work with less favourable inputs.

Inputs can be physical, like a commodity or a component, or information or expertise. For example; specialist staff with deep expertise who are in limited supply can be an effective blocking factor if you can develop some form of exclusive supply arrangements. Many situations require an accredited specialist or highly trained or experienced or knowledgeable expert, the firm which has long term access to them through their supplier has a sustainable advantage.

Another form of exclusivity exists where specialist stores and wholesalers have an arrangement with their suppliers where the supplier will not place another store or use another distributor in their immediate vicinity or region. This protects their immediate market and should assure them of limited competition. This is especially effective where the supplier provides brand name products which have high customer loyalty.

In Bound Distribution Channel Blocking Techniques

Another effective way of controlling the supply chain is to limit the access of other competitors to the point of supply. Owning or controlling the inbound delivery channel can provide this level of protection. The most obvious example of this type of control is unique distribution agreements with overseas suppliers. Where the distributor has an exclusive distribution agreement, they have effectively locked out their competitors. This is especially effective where the product solves a unique or difficult problem and has a high customer compelling need to buy.

A good example of this is where Australian firms have been founded on the exclusive importation rights to a new or novel product. Being first to secure the rights to the product or service is a common strategy for a start up firm. They then use this leverage to build their business. I have often said to entrepreneurs. "Go find something overseas which you can sell here and tell them that Australia has only 20 million people and that the market is too small and too far away for them to bother with". The aim is to secure a long term distribution contract which you can use to build a secure revenue stream.

Many companies have grown on the back of such initial contracts. Sometimes they have taken the risk with new brands or products and as their supplier has become more successful, so have they.

Protecting Your Product or Service

The last point of protection is with the business itself. There are two layers of protection, stopping someone coming into the industry and stopping a competitor from copying your product or service. 'Barriers to entry' is the common term used to describe the blocking factors which inhibit new entrants from coming into a market. Many industries have significant industry based entry barriers but, while they protect you from new competitors, they don't protect you from the competitors which are already there.

Industry barriers are those things which build a wall around the industry to exclude potential new entrants or require considerable cost or time to overcome. The number of ways in which this type of protection can be achieved is extensive but would include such things as:

- Licenses, accreditations, registered rights
- Regulations which limit new entrants
- High cost of set up
- Extensive network of outlets or contact points
- Deep expertise of a situation, process or market
- High economies of scale or high learning curve effects
- Ability and capacity to retaliate
- Protection through subsidies, trade barriers or quotas

If you are already in the industry, you want as many of these as possible. If you are entering a market or trying to grow the business, these can be serious impediments. They can also have negative consequences. For example, high costs of set-up might limit the number of effective competitors in a market but the same high costs may lead to intense price discounting when business levels decline. It may deter others from coming into the market but it may not be sufficient to protect the profits of those which are already there.

Many companies see their relationships with their customers as an important blocking factor to new entrants. Some firms have nothing else going for them other than strong customer loyalty, but this has been sufficient to protect their business over a long period of time. Their level of customer service, customer empathy and willingness to go the extra mile to delight their customers is their strength. You should closely examine how effective your relationships are with your customers and find out how important that is to their willingness to place future business with you.

Employees can themselves be a major competitive strength. In many businesses recruiting and retaining the best people is the key to long term success. Retaining the best people for research and development may give the firm the ability to bring great products to market quicker and cheaper than competitors. As an example, from 1985 to 1999 I was fortunate enough to have an outstanding team of software developers who moved with me from Northampton in the UK, to San Diego in California and then to Atlanta in Georgia. During that time I was involved in three separate businesses and this team came with me each time. Many people tried to recruit individual members of the team but they stayed together, not because of the salaries, but because I offered an interesting and challenging environment in which they were respected and treated well. I ended up with a real star team which was incredibly knowledgeable and productive.

However, these factors merely deny easy access to the industry by outsiders, they don't normally provide sufficient protection against close competitors. Other blocking techniques are needed to fence off your customers. Such things as:

- Patents, trademarks and copyrights
- Highly prized locations
- Well established brand
- High customer loyalty
- A way of doing business which is highly valued by your customers but is not understood by others
- Secret formulas or processes

A patent which solves a unique problem can be a powerful blocking strategy. The other techniques may be more or less effective but are not guaranteed and they may only work in some circumstances. They are, however, all factors which can impede the effectiveness of a competitor. The greater the time and/or cost to duplicate or overcome, the greater the level of protection.

Few of these barriers are, however, permanent or 100% effective. Many people believe that patents and other registered intellectual property rights provide the ultimate protection. In truth, these rights are only effective if you have the money to defend them. Many patent holders have been worn down by the time, stress and expense of litigation. A large corporation might be willing to take the risk of an infringement suit or be willing to spend a large amount of resources finding a way around the patent.

Integrated Solutions

Few companies can achieve long term sustainability without re-inventing themselves and developing new innovative products or services. In the short to medium term, the best approach is to develop a combination of strategy, protection and employee and customer relationships which can best meet the business needs. Implementing an integrated solution of blocking techniques or factors across the entire supply chain will be the strongest mechanism you can apply to ensure protection of future revenue from existing customers. One hundred percent protection is an ideal but that should not stop you from implementing a range of blocking techniques to give you the strongest position.

Competitive advantage simply gets you into the game. Building sustainable protection to secure your existing customer base can help ensure survival and growth. Each element of the supply chain should be examined for mechanisms which can protect the business. At the same time, the impact of building great relationships with customers, employees and suppliers should not be underestimated as a form of competitor blocking. In the long run, those that have the most effective blocking techniques are more likely to be more successful.

Applying a range of competitor blocking techniques across the supply chain will result in a much higher valuation on exit. For a financial exit it provides a more convincing basis for revenue estimates while at the same time reducing the risks that those revenues will be achieved. This has a direct effect on the discount rate used in the NPV formula. In a strategic exit, the buyer needs to have time to exploit the acquired strategic asset or process. The competitor blocking techniques provide the basis for the competitive advantage the buyer needs to fully exploit the underlying potential of the acquisition.

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