

BUSINESS SURVIVAL



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“No silver bullets, just hard disciplined work with assured results!”

I. Introduction

- a. Discourse on today’s economy, from the perspective of small business owner:
 - i. For our purposes today, let’s agree on a working definition of economy:
 1. ***Wikipedia - An economy is the realized social system of production, exchange, distribution and consumption of goods and services of a country or other area.***
 2. ***Small Business Owners – A social system of production, exchange, distribution and consumption of goods and services.....to defined target markets.***
 3. ***For today’s purposes – production, exchange, distribution and consumption of goods and services for the target markets of the businesses represented in this workshop.***
 4. Agree on some terms that will be used today:
 - a. Money is the principal of exchange.
 - b. Customers are the expenders of the money.
 - c. You have to “go get” customers to get them to spend the money at your business.
 - d. Business – Combination of systems that determine:
 - i. Who will spend money?
 - ii. For what.
 - iii. Operating expenditures
 - iv. Profit (money in the pocket)
 - ii. Three (3) primary factors that impacted every small business, sometimes negatively and other times positively:
 1. Expenditures by our target markets.
 2. Cost of doing business.
 3. Structural changes in the market place over which a business owner might have little control.

- iii. Key question – What impact does today’s economy have on your business?
 1. Spending constraint by consumers and businesses (-20% in many cases), but they are still spending.
 2. Increase cost of items like gasoline, food, etc, but it is still available.
 3. Overarching environment of fear – will last through first quarter of 2009.
 4. The big boys have come, or are coming, to town.
 5. **Conclusion –The above are items over which we have little control, yet I submit to you that there are still opportunities to survive and thrive. Further, there are business types that are positively impacted by current economic forces (counter cyclical).**
 6. **Conclusion – For the next 12 to 18 months expect gross revenue to be @ least 10% below norm. The challenge, then, will be to survive and thrive with less revenue. Oh Boy!**

- b. In today’s workshop we are going to deal with two (2) basic interrelated issues that if adhered to will enable your business to **Survive and Maybe Thrive.**
 - i. **Business Model** – For each of you there is a fundamental business model that you do not want to violate. If you do you will either be:
 1. Too constrained.
 2. Too big.
 - ii. **Basic Business Practices (10):**
 1. *Capacity*
 2. *Target Markets*
 3. *Competitors*
 4. *Competitive Edge*
 5. *Marketing*
 6. *Personnel*
 7. *Salesmanship and Customer Service*
 8. *Technology*
 9. *Financial Management*
 10. *Assess and Alter*
 - iii. In this workshop we do not have enough time to deal with all 12 of these in details. Goal is to fly at about 10,000 feet, giving you food for thought and instructing you in ways to go about assessing and altering. Remember – VEDC has consultants who can help you with the heavy lifting part of this process.

- iv. It is recognized that while the information here is presented in a segmented format, it is often difficult to separate the parts because business is more fluid than it is segmented.

II. **Business Model**

- a. For each of you there is a basic business model that you do not want to violate. It constitutes your *Competitive Edge*:
 - i. *Competitive Edge* is the reason, or combination of reasons, you give your *Target Markets* to purchase goods and/or services from you as opposed to your *Competitors*.
 - ii. What are you selling?

 - iii. What is your *Competitive Edge*?

 - iv. What is imperative to retaining that *Edge*? This is what you do not want to violate.

 - v. Rest of our discussion this morning will deal with *Basic Business Practices* as they relate to your business. These are the fundamentals of you retaining your *Competitive Edge*.
- b. There might be some businesses represented here that do not have a *Competitive Edge*. You better create one!
- c. REPEAT - You have to give your *Target Markets* a reason to buy from you.

III. **Basic Business Practices**

- a. **Capacity**
 - i. What is the minimal capacity requirement of your business?
 1. Retail – inventory
 2. Manufacturing – widgets produced
 3. Warehousing/distribution – efficiency
 4. Professional services – book of business

- ii. What are the components of this minimal capacity?

- iii. How do you currently stack up?

- iv. What is the value of the assets you are employed in your business during the first six (6) months of 2008? You can use your balance sheet to determine this. Additional analysis will be required for those businesses where people, rather than current and fixed assets, are the primary determinant of revenue potential.

- v. *NOTES TO SELF:*

b. ***Target Markets***

- i. To whom are you selling your products and/or services? There need to be 3-5 groups of people with similar characteristics, or business types that represent 75% of your annual sales revenue. What are their distinguishing characteristics?

- ii. Do you know the size of your *Target Markets*? Are the numbers increasing or decreasing?

- iii. Are there new *Target Markets* that you need to explore? Why?

iv. *NOTES TO SELF:*

c. **Competitors**

i. Who are your five (5) primary competitors, and in a word/phrase indicate their strengths, weaknesses, and threats as related to your business?

ii. What opportunities emerge for your business?

iii. What actions are required to take advantage of these opportunities?

iv. What is the cost associated therewith, and do you have access to those resources?

v. *NOTES TO SELF:*

d. **Competitive Edge (Niche, Uniqueness, Distinctive)**

i. Why your business?

ii. Why your business (refined)?

iii. Why your business (really refined)?

iv. Why your business (in a sentence of two)?

v. *NOTES TO SELF:*

e. **Marketing**

i. *Marketing* is a compilation of all those things you do to create and reinforce an image of your business in the eyes of your *Target Markets*. It is important to remember that much demand for our products and/or services is created demand not latent demand. Marketing is an important part of this creation.

ii. What three (3) messages do you want to consistently communicate to your target markets?

- iii. How are you currently communicating these messages?

- iv. What collateral materials do you use in *marketing* your business?
Does it need to be revised?

- v. Is public relations an integral part of your *Marketing* activities.

- vi. *NOTES TO SELF:*

f. **Personnel**

- i. I know you sometimes wish you could, but you probably can't operate your business with no employees; thus, it's up to you to make sure they are adequately trained and motivated. They represent your most valuable asset.
- ii. The staffing process:
 - 1. Determine your staffing needs? Even if you currently have staff, take a step back and answer this question. Remember, for most small businesses profitability is compromised because of staffing issues – either too many people, people doing the wrong things, or inadequate training.
 - 2. Create job descriptions; even if you already have employees.
 - 3. Develop tools for measuring performance.
 - 4. Train...Train...Train
- iii. What are your current staffing requirements?

- iv. Do you have the right people “on the bus”?

- v. What actions do you need to take to reduce staff?

- vi. There are many talented people currently looking for work. Do you need to fill any key positions?

- vii. *NOTE TO SELF*

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g. *Salesmanship and Customer Service*

- i. *Marketing* does not ensure a sale; that’s the job of *Salesmanship*, and anybody can be a good sales person:
 1. Need to ask for the sale.
 2. At least 20% of businesses potential revenue is not captured because of poor salesmanship.
 3. *Salesmanship* is how you “seal the deal”.
- ii. *Customer Service* keeps them coming back. Some key points to remember about *Customer Service*:
 1. Top driven
 2. It is a culture not an event.
 3. It requires commitment to relationships, not just selling an item or service.
 4. It often requires that you go the extra mile.
 5. Needs to be top-driven.
 6. Employees are also a customer type.
 7. Your employees will follow your lead.
 8. The cost of developing a new customer is about 10:1 over the cost of retaining an existing one.

i. **Financial Management**

- i. There is a direct correlation between *Financial Management* and business success.
- ii. These are the key components of a good *Financial Management* system:
 1. Record keeping
 2. Financial reports
 - a. Income statement
 - b. Cash flow statement
 - c. Balance sheet
 3. Understanding and applying key ratios and financial leverage:
 - a. Debt paying
 - i. Current – current assets/current liabilities (2:1)
 - ii. Quick - cash, marketable securities and accounts receivable/current liabilities (1:1)
 - iii. Debt to equity – total liabilities/stockholder's equity (1:1)
 - b. Return on investment
 - i. Return of equity – net income/stockholder' equity.
 - ii. Return on assets – operating profit/total assets
 - c. Financial leverage – operating profit earned on capital supplied by liabilities.
 4. Budgeting and forecasting
 - a. Pro forma income statement (sample will be provided).
 - b. Pro forma cash flow statement (sample will be provided)
 - c. Balance sheet (sample will be provided)
- iii. What *Financial Management* system do you have in place? Not just the accounting or record keeping program, but what is the process of financial management that your business employs?
- iv. Do you have a cash flow management system? A handout entitled, guess what, **Cash Flow Management**, will be handed out during the workshop.

v. Do you prepare budgets?

vi. *NOTE TO SELF:*

j. ***Assess and Alter***

- i. This component is a bit different than the others. It is a commitment to a process. Successful businesses are continually planning, assessing and altering. We want you to be successful so we are encouraging you to adopt this same process. The steps are more important than the format, and they can be employed in every area of your business. This is the process:
 1. Create plans.
 2. Take the actions.
 3. Measure results.
 4. Make adjustments.
 5. Return to a.

IV. **Business Valuations**

- a. The natural process of the life of any commercial enterprise:
 - i. Birth
 - ii. Growth
 - iii. Maturation
 - iv. Decline
 - v. Death
- b. Understanding some terms:
 - i. Price – What a buyer will pay for something.
 - ii. Value – Value is what it is actually worth.
- c. Types of value:
 - i. Objective – Head
 - ii. Subjective – Heart
 - iii. Going concern – The most probable market value, expressed in terms of money, available in the open market for a proven business enterprise that has established patronage, exclusivity, or uniqueness, which results in demonstrated earnings or profitability.
- d. Methods of appraising :

- i. Book value – Summation of current and capital assets, less liabilities.
- ii. Market value – Same as book value, with exception that capital assets are based on their value in the open market.
- iii. Comparative sales
- iv. Sum of the assets – used when high portion of business value is in real estate.
- v. Income approach:
 - 1. Discounting or capitalizing historical net profits.
 - 2. Same as above, but using projections instead of history.
- vi. SWAG – Scientific Wild-Assed Guess
 - 1. Usually more the later than the former.
 - 2. Unfortunately, many small businesses are bought and sold on this basis.