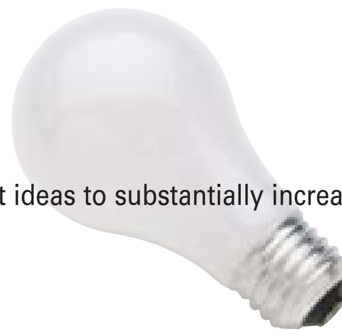
Profit Enhancement *Report*



Great ideas to substantially increase profits.

Year End 2003

In this issue

Measure, then achieve

Is outsourcing right for you?

Intelligent moves for tough times

Profit opportunity!
How recruitment and retention helps your cause

Measure, then achieve

It's commonly accepted that businesses with strategic plans outperform their counterparts that lack such plans. We often become so preoccupied with the day-to-day issues of running a business, however, that we lose all sense of the mission and direction. A full-scale strategic plan is time-consuming and costly.

Fortunately, you probably don't need to create a new business plan from scratch. Instead, you should reconsider your business goals and processes for implementing them. And turning existing goals into reality is one of the best ways to improve financial performance.

Turning existing goals into reality is one of the best ways to improve financial performance.

Create reasonable, measurable goals

Successful action plans must be practical. It's better, for instance, to articulate two or three desires and leave yourself plenty of time to accomplish them than to give yourself 10 things to do in the same time. Examples of simple but achievable projects include:

- Creating customer profiles and a simple database program for recording transactions,
- Adapting your Web site to better collect customer data, and
- Executing three or more targeted marketing programs.

The struggle to create an actionable plan comes when goals are ill-defined, such as becoming "the No. 1" or "most trusted advisor" in your industry. How do you measure these intangibles in an action plan? Will your vision generate more revenue and new leads? You'll never know because such objectives are too vague.

So, when determining goals, stick to a simple rule: "If you can't measure it, don't do it." Measurables state what you want to achieve and help clarify outcomes: *Acquire at least one new customer per quarter. Increase Web site leads by 10%. Increase revenue per customer by 20%.* Being specific gives everyone the same mark to hit and reduces misunderstandings.

Name a coordinator, put the plan in writing

The action plan captures who is going to do what and when. It also identifies resources that people will need to carry out the steps. For every set of actions, you need an overall coordinator; this person monitors activities to make sure individuals receive the support they need. Together, the coordinator and the group are accountable for the plan's overall success.

Meanwhile, you'll also need an implementation group, who should answer the following questions:

- What exactly will happen so the organization meets its goals?
- Who will carry out any given activity?
- Whose support do team members need?

There are various ways to record this information, such as a spreadsheet. The important thing is to get the plan in writing and give everyone a copy. If you fail here, the whole project is at risk. Companies often assume that employees know what steps to take and how to take them. You can't afford to fall into that trap.

Benchmark your results

Of course, you will need to evaluate the plan's success. Such analysis not only summarizes what you accomplished, but also compares what you set out to do with what you actually achieved. Therefore, your benchmarking should tell you whether you reached your goal — or what still remains on the checklist to get you there.

More specifically, you might evaluate your plan according to how the organization:

- Maximized clients, revenues or profits,
- Changed how it makes decisions (perhaps using fewer committees),
- Educated its customers, or
- Increased client enrollment in seminars.

Undoubtedly, you can think of other milestones your company needs to reach. Indeed, employees or volunteers are often just looking for someone to lead them toward a goal.

Be an action hero

In a way, your job is simple: Identify where your organization can better itself and define what that improvement will mean. Then assemble a team (possibly as large as the entire employee roster or as small as a task force) to help you succeed.

Remember to evaluate results periodically, so the group doesn't head in the wrong direction indefinitely. And, naturally, change tactics when needed. Above all, recognize that something needs to be done, and formulate a plan to do it. Nothing will be gained if you don't try. ■

Is outsourcing right for you?

Outsourcing (which came into vogue last decade) is the practice of removing the employee cost of performing an operational function, such as benefits administration, and contracting an outside company to handle it for you at a reduced cost. In theory, that's an attractive proposition, because handing over a duty to someone else allows you to reduce overhead — to say nothing of management headaches that tend to go away. But does outsourcing always work the way it's supposed to, and would it be a good fit for your company?

Cutting costs and hassles

The practice does present savings opportunities. Some tasks, such as payroll processing, seem tailor made for outsourcing.

Consider, for instance, that at one point nearly every company had a payroll department. It calculated wages and taxes and issued salary checks as needed, often weekly. This was always a labor-intensive job, heavy on transactions, with no end of regulatory paperwork.

So, when third-party payroll vendors became prevalent, offering a reasonably priced alternative, many companies jumped at the chance to shed themselves of this burdensome task. In fact, some businesses now hire outsourcers to keep from adding full-time staff.

Weeding them out

If you decide to outsource a function, choose the service provider wisely. Even if you do no other research, try these three things:

1. Check references. If a vendor is reluctant to give out customer contact information, send them packing. (Hint: If you belong to a trade association, poll other members on their experiences with specific vendors.)

2. Don't let price rule. A vendor's responsiveness, reporting systems, number of years in business and the quality of its management team are all important factors, too.

3. Get specific. Don't be afraid to ask a vendor about its failures and what it learned from them. The answer should give you insight into the company's nature and reveal whether it will be a good fit for you. The chief complaints about vendors tend to fall into one or more broad categories:

- Lack of responsiveness,
- Too much turnover (you've had three project managers in a year, let's say),
- Processing errors (such as miscalculating taxes), and
- Contract ambiguities that lead to arguments over service and fees.

If you find a vendor you believe can communicate well and minimize mistakes, you should be headed in a good direction. (That's not to imply, however, that the relationship can't lead to unpleasant surprises later.)

Making the call

The bottom line: Outsourcing can increase profitability, but only if you select the right providers. Your main objective should be determining whether a prospective vendor can handle tasks better and more efficiently than your own full-time staff could manage. We have experience in this area and can help you make the tough calls. ■

Profit opportunity!

How recruitment and retention helps your cause

Remember the heady days of the late '90s, when it seemed every MBA wanted to get rich by starting an e-commerce Web site? For workers, it was truly a "seller's market."

The tide has turned since then, but it won't last forever. As an employer, you should take a hard look at your people and upgrade where necessary — while there are good people to hire. But even more important is to treat your best people fairly and reward them, so that they don't bolt when the economy perks up again.

Turnover costs

Turnover in general is expensive, but when your best employees leave, the costs rise exponentially. For starters, replacing anyone involves recruitment, whether you're using a consultant or your own HR staff. From there, you'll need to account for training, orientation, lost productivity for those involved in the hiring process and inefficiency. (Even the sharpest new hires probably can't learn the job in a week, after all.)

The loss of excellent staffers versus average employees compounds these woes. If an employee of merely adequate abilities succeeds a star in a given position, the productivity gap may never close, costing profits along the way.

Employee-rating scales

Partly in response, many companies have adopted employee-rating scales. Here, employees annually receive grades of 1 through 5 (with 1 being "unacceptable" or "poor" and 5 being "excellent" or "far exceeding requirements") on specific performance criteria. Statistically, 10% to 20% of employees will be 5s; 70% to 80% will be in the 2 to 4 range (satisfactory to above average); and bringing up the rear will be the 10% to 20% who should probably update their resumes for other reasons!

Such scoring helps separate the top performers from the competency-challenged, letting the company deal in kind with each group. Organizations seeking a competitive advantage by increasing employee productivity will dedicate more time, training and resources to the top 20% and replace the bottom 10% with at least average performers. Seeing these results will, in theory, inspire some in the middle group to increase their own productivity. Thus, the quality of *all* employees should improve each year.

Your grass, your stars

Companies that recognize, pay, train and facilitate the growth of their top performers will likely deter them from jumping the fence in search of those elusive verdant pastures. Let us help you explore some ways to find — and keep — your stars. ■

SITTING ON YOUR HANDS COULD HURT YOU

Here are three tips on keeping top performers happy — and working for your company year after year.

1. **Don't wait for the annual review.** Recognize great performers regularly. Identify them at weekly and monthly meetings, as well as on bulletin boards and in newsletters. Sing their praises.
2. **Don't just spread out raises or give them in a lockstep fashion.** Too often, management uses raises to keep as many people happy as possible.
3. **Don't keep workers in the dark about what it takes to become a star.** No matter what your measures are, employees can learn to change their behavior to fit the criteria if they know what they are, why they are important and what the impact on their paychecks will be.

Intelligent moves for tough times

In the last few years, the economy has seen it all, from peace and affluence to recession and war. The wild ride has managers and business leaders across the country grappling with key questions: *Where should we invest? How do we generate new revenues? What can we do to retain valued customers while eliminating some jobs?*

Now is not the time for knee-jerk reactions. But it is appropriate to review your long-term business strategies and goals. The current economic situation is historic in nature, and the return to stability will be slow and gradual.

Remain calm

Here are a few business practices to consider in turbulent times:

Maintain a disciplined fiscal focus. Be steadfast in determining your core business and investment needs.

Fixate your culture on staying profitable. If you don't maintain positive operating results, poor numbers can become an excuse for further underachievement.

Regain business stability by reviewing income statements and noncore processes. Eliminate marginal activities that do little to generate positive cash flow; reinvest only in what's strategically important.

Ask hard questions. From time to time, you should wonder what business you're really in. Review your vision, your mission, your business plans — the operational components of what you sell.

Understand your business beyond profits and losses. Analyze your organizational culture — the "spiritual" business you conduct. What your company stands for is just as important as what it sells.

Use down cycles as opportunities to change tactics. Take time to map out where you want to be and lay the supporting foundation to accomplish the goal. That way, when the up cycle comes (don't worry, it will!), you'll be ready to make your move.

Don't just slash

When it comes to reducing head count in tough times, don't make decisions out of fear. If you cut too deeply to make up for lost time, recovery will be difficult. But if you don't cut enough people initially, further layoffs can devastate the morale of your core employees. So what does work?

Experience suggests that you should review your current business plan and forecast what the financial picture will be in the next nine months. (Projecting nine months out instead of a full year provides a three-month window to make adjustments for the coming year.) Determine layoffs needed for that span. Then, make the cuts even as you focus on keeping the core team together.

Some firms democratically cut 10% of total head count in each department, rather than identifying the critical employees. So determine who's vital and invest in them, even if it means reducing employees 20% in other business areas.

It's easy to think of human resources as just another expense; however, employees can also be a tremendous asset. Layoffs can harm morale, as remaining workers — though happy to be spared — often feel bad for those let go.

To deal with such sentiments, tell your staff the truth and enlist their support. Let them know the organization is facing a huge challenge, one it's never seen before. Inspire them to rise to the occasion, perform beyond expectations and retain customers. Remind your employees that customers want to remain loyal, and the company can't survive without them.

Last, demonstrate your support and understanding, because fewer employees are probably working harder than ever. Now may not be the time to hand out raises or bonuses, but you could show appreciation by picking up the tab for a departmental lunch, or going on a company outing. (You'll probably have a better idea of what your employees would enjoy!)

Take charge

The current economic climate seems to have created more opportunity for collaboration and outsourcing. Companies are concentrating on what they do best and eliminating "sacred cows" (such as flying first class) no one would have questioned a few years ago.

To be sure, only courageous leaders look objectively at their companies. To do so effectively, you might ask: *What's going on outside our company? Where are all the customers?* If you venture out and pose these questions, here's what you might learn:

- Companies take a leadership position by saying, "Let's get moving." It's a simple, powerful message to employees. Be more productive than ever and the business will come.

Analyze your organizational culture — the "spiritual" business you conduct. What your company stands for is just as important as what it sells.

- If you do things to make customers happy, you'll be successful. They will stand by you even if you make mistakes.
- You need to constantly find new ways to collaborate with customers, colleagues and vendors.
- Teamwork counts more than ever during tough times. For instance, when a well-known airline hit a slump, it deferred anything that was not critical and gained fierce employee loyalty. Employees actually gave back money to the company to help out during a rough time.
- Sam Walton knew the score. Recall the Wal-Mart founder's adage: "Whenever you get confused, go to the store." You might not run a store, but the same principle applies: Customers have all the answers.

Mix it up

By formulating a blend of long-term business strategies and short-term survival tactics (such as layoffs), you can position your business to weather the roiling economic climate and ensure a winning and profitable future. Let's talk about how you can do this with your organization. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. ©2003