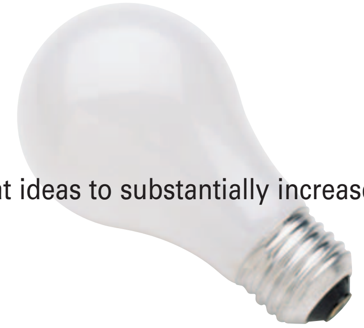
# Profit Enhancement *Report*



Great ideas to substantially increase profits.

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## In this issue

# Sales don't have to cool off during summer

Sizzling summer temperatures often leave sales out in the cold. Summer can mean slower sales, especially when everyone who isn't already on vacation is pining for the great outdoors. People are distracted and companies are short staffed. As a result, the summer sales slump can rival or even exceed end-of-year doldrums.

But investment always precedes return. The summer slowdown is the perfect time to try out some creative selling tactics — and while you're at it, to nurture customer relationships and plan for fall and winter sales successes.

## Get out and sell

With smart planning and strategizing, you can make summer a hotbed of sales potential. The most common challenge by far is a defeatist attitude. Assuming sales will be slow creates a self-fulfilling prophecy. Overcome the temptation by compiling hard evidence on the sales environment. For example, are competitors continuing to sell in summer? Are they selling at higher prices or growing their companies?

Even if sales really are in a seasonal slump, view this as a challenge to find the opportunity in the haystack. There's nothing more fulfilling than closing a sale when others are floundering. For instance, some businesses give lucrative time contracts. Make an economically attractive offer with a short window of time so the customer must act immediately vs. waiting until fall. Of course, always weigh the value of an immediate sale against waiting for a more profitable one later.

When bargaining for the best deal, have salespeople try the collaborative approach. After the question-and-answer process, the salesperson should be able to make an offer that meets the prospect's primary criteria. If it's fair, the prospect may feel less compelled to negotiate because a sweet deal is already on the table.

## Plant for the harvest

Besides direct selling, you can find many profitable ways to occupy the summer months. Think of yourself as a farmer planting seeds months before the harvest. Some sales need time to grow. Too often, salespeople miss deals that will bear fruit in the coming seasons because they're looking for the immediate score.

So ratchet up prospect and client relationship-building, which any successful salesperson will tell you is the cornerstone of success. Use summer to build "trusted advisor" relationships with key clients, contacting a range of target accounts to learn about changes and challenges they've experienced in the last six months. New opportunities often arise at or immediately after times of change.

Summer offers abundant venues to start new relationships and cement existing ones. Picnics, sports activities or just lunch or coffee at a popular sidewalk café are great ways to familiarize prospects and clients with your services and products. Consider developing customer appreciation events, with incentives for bringing guests. Support local summer fund-raisers, and invite your prospects and clients to get involved as well.

### Plan for your peak season

Take advantage of summer doldrums to spend time setting realistic goals for the second half of the year. First assess your first-half achievements. What worked and what didn't? Categorize obstacles by activity level, skill level and attitudes.

Then review industry changes and note where you need to take action to keep current. Do a territory or target-customer review. The business world changes rapidly. Determine whether you're targeting accurately, prioritizing correctly and spending time in the right places.

Set goals and quotas to reflect busy and slow seasons. Also keep in mind that industries with winter as the peak season and companies with fall fiscal calendars use summer to plan annual budgets and make buying commitments for the coming seasons.

### Use summer well

Options abound for summer sales, relationship-building and planning — so don't succumb to "heat exhaustion." With the right attitude and perseverance, you can continue to sell right through the summer months, establishing contacts that will flower for seasons to come.

### LETTING YOUR STAFF KICK BACK

Besides being a time to sell creatively and strengthen customer relationships, summer is great for reconnecting with employees. Staff may be stressed from filling the gaps created by so many people being on vacation. Problem solving or just encouraging them to vent their frustrations may bring a profitable payoff later.

During the summer months, make leaving work early an incentive and motivator. Where possible, put salespeople on "goal time." Redirect focus away from the clock to specific goals. For example, let them leave for the day after completing defined objectives such as sales quotas. If you require established sales hours, allow sales producers to start earlier or work through lunch to accommodate earlier departures, even if it's just on Fridays.

As leadership author Stephen Covey suggested, "Sharpen the saw once in a while." Give employees a chance to refresh skills and correct bad habits. Summer can be a perfect time to attend sales, industry or computer classes, and for the sales force to enroll in personal growth programs to strengthen overall performance.

# Managing slow-moving inventory

One of the ways Sam Walton built a highly successful business was by following a simple inventory management rule: A dollar invested in inventory collecting dust on the shelf is a dollar you can't use to pay bills.

But does that mean you should immediately jettison all slow-moving inventory? On the contrary, many businesses need to hold on to certain items even if they seldom sell. Weighing customer needs and satisfaction against efficient inventory stocking controls can seem like a complex conundrum. But solving it is worth the effort because it can increase your staff's efficiency and your company's profitability.

### On the shelf

Good inventory management means having the right products on hand for the right customers at the right times. Stocking popular items with strong selling histories doesn't present much of a problem. Your historical inventory turnover data — the number of times during the period you sell and replace inventory — should indicate how much you need on hand at a given moment.

It's the items that sell sporadically or slowly that might have you scratching your head. To maintain a high level of customer service, most distributors, manufacturers and even some retailers maintain stock of selected slow-moving items.

For instance, a company may require its suppliers to stock a product or part that's vital to one of its production processes. Although it only happens every few years, when this piece breaks it shuts down the entire process. The supplier must have it available for immediate delivery if the call comes in.

Or, a company may buy inventory at drastically reduced prices, for instance when a rival goes out of business. Even if these items are slow movers, the profit margin may be large enough to offset the carrying costs. And to ensure good customer service, companies often keep seasonal items in stock even when it's not their hot selling season.

## 4 WAYS TO CLEAR THE DECKS

Most companies have to retain certain slow-moving inventory — but what about items you know you don't want to keep? Here are four popular strategies for ridding yourself of them, if possible at a profit.

1. **Hold a fire sale.** This oldie but goodie is widely used in industries such as personal computers and consumer electronics, where new and improved models come out frequently. Selling the brand-new but soon-to-be-obsolete products to customers and employees at a discount improves cash flow, frees up warehouse space and creates goodwill.

2. **Contact resellers.** Many companies have found resellers, or repackagers, a viable solution for slow-moving items. You sell inventory at a deep discount to the resellers, who then repackage it for thrift or discount stores.

3. **Make charitable donations.** Your company can receive a tax benefit based on the fair market value of items donated to nonprofit organizations, and generate some positive PR in your community.

4. **Haul it to the trash.** If you can't sell something or even give it away, at least get it off the premises. It's more cost effective to dispose of some inventory than to continue incurring carrying costs.

*Set up a classification system based on turnover criteria.*

## But not forgotten

If you decide to maintain limited amounts of slow-moving items, the worst thing to do is ignore them. On the contrary, you'll need strict controls and procedures to keep financing and warehousing expenses plus the cost of management time from eating up the items' entire profit margin. As a rule of thumb, these carrying costs run from 20% to 25% of the inventory's value.

Start by setting up an inventory classification system based on turnover criteria. While the 80-20 rule still applies in some industries (80% of inventory turnover comes from 20% of the product line), a more common turnover scenario is 20% high volume, 60% medium volume and 20% slow movers. Using this system to classify your inventory helps facilitate buying decisions, set safety stock levels and trigger alarms when you need to do something about stagnant inventory.

Once you've identified and analyzed the slow-moving items, segregate the critical ones you're keeping for certain key customers. Then decide what to do with the rest. Many business owners establish separate warehouse facilities, or rent third-party warehouses, for slow-moving or seasonal inventory.

During seasons when the products once again become fast-turnover items, transport them on store-ready pallets to your regular distribution centers. In the slow seasons, send them back into storage so they don't hinder operations. Many third-party providers offer space designed for slow-moving items and charge based on the amount of square footage being used.

## Time well spent

For years, business owners have regarded inventory as a weak or low-value asset. Everyone tries to reduce it. Bankers and CFOs, in particular, seem to disdain it. But all inventory isn't bad. The process of identifying your slow-moving items and deciding how best to manage them will take some time, but it will be time profitably spent.

# Get an early start on succession planning

No business owner likes to think that one day someone else will be running his or her company. So much of the typical entrepreneur's identity is linked to the business, it's almost impossible to contemplate parting ways.

Add to that the complexities of tax issues, estate planning, transferring the business to family members or key management personnel, and deciding what to do with their time after retirement, and it's no wonder many owners are frozen into a state of inaction. They plead they're "too busy" or "there will be time for that later," and put off planning until it's too late. The result? Only 30% of family-owned businesses continue into the second generation.

## It's never too soon

But it doesn't have to be that way. Start planning early how, to whom and when you'll transfer company ownership and management. A good plan also will address ways you'll minimize taxes as wealth is passed between generations.

The best time to begin is when you're active and healthy, with plenty of time to oversee the events that will ultimately lead to the transfer. Recommended time frames range from five to 15 years. Why so long? You need to test potential successors in a variety of roles and situations to see who is best suited to take your place.

If, after extensive observation and coaching, you realize that the family members or management team you were counting on to assume control just aren't up to the task, it's not a tragedy. You can choose to bring in outsiders to run the business, separating ownership from management, or sell it. Either way, giving yourself time for planning means you retain control over your company's ultimate fate.

## The end is the beginning

Start your plan with the end in mind. Take stock of where you are today and where you'll be after the succession has taken place. Knowing roughly what your life will be like after you transfer ownership makes planning easier. Ask yourself:

- Whether you will continue to actively coach your successor, and, if so, how much time will you devote to it?
- What other activities will occupy your time?
- Where will you live?

Next, put your successor's role and job description in a written document, and use this to qualify your candidates. Take your time and carefully evaluate each one. A big mistake many business owners make is to choose a family member and try to force the job to fit them. Not everyone has the qualifications to run your business.

If one of your children does appear qualified, start preparing him or her early. Most family business consultants recommend that after college the potential successor take an outside job for at least five years. Having learned about business from this perspective, he or she can join your company, working in a variety of roles to gain hands-on experience.

As your candidate's responsibilities increase, you can evaluate his or her progress and ultimately decide whether the child will be able to take your place. You'll have plenty of warning if he or she is not going to be ready when you want to step down.

## A financial team delivers

Whoever your successor turns out to be, you need a financial strategy for transferring ownership. Handling this properly protects against the worst-case scenario — gift and estate taxes forcing your family to sell the business against their and your wishes. Beyond that, it helps you take control of every aspect of the change.

Good succession planning means assembling a team of professionals to handle tax, accounting, insurance and valuation issues. You may need to retain a CPA, attorney, estate planner, financial planner, insurance agent and valuation expert to protect your and your family's interests.

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A key element in any succession plan is the buy-sell agreement. These agreements provide direction for the orderly transfer of ownership in a variety of situations, including death, disability, retirement, bankruptcy and divorce.

Owners often fund the agreements with life insurance proceeds in the event the owner or majority stockholder dies. If you plan to sell the business to employees, it's critical to consider an Employee Stock Ownership Plan (ESOP).

## The best-laid plans succeed

Succession planning lets you, the business owner, direct the destiny of your life's work. You wouldn't ignore important day-to-day business matters — so why neglect the ultimate survival of your company, and with it your family's financial future? Start planning today so you can eventually leave your business in proven, capable hands. ■

# Is “corporate ethics” an oxymoron?

*Creating a code you can live by*

It’s become an all-too-familiar television news story — a formerly powerful and respected business executive led from a posh office building in handcuffs. This company, the viewer might think, either didn’t have a code of ethics or didn’t enforce the one it had. But it might just be that the company created an unworkable code.

## Getting it right

A good code of ethics has to be strong enough to be taken seriously, but flexible enough to work in the real world. Here are some tips for putting together a code your company can live by:

**Apply it universally.** Even if you administer it differently at different levels, a good ethics code should apply to everyone, from the custodian to the CEO. If it’s wrong for a staff person to steal $20, it’s wrong for the CFO to steal $1 million.

**Hold management accountable.** Employees must be assured that management is accountable to the board, to shareholders and, in some cases, to regulatory agencies for ethical violations. Knowing everyone is responsible for their actions, employees are much more likely to comply.

**Enforce it consistently.** A code of ethics must operate all the time — not just when it’s convenient. Managers making excuses or rationalizations for not enforcing the code can lead to employee cynicism and unethical behavior on everyone’s part.

**Make it practical.** A workable code must allow standard business practices. Say it’s customary in your industry to conduct business over a good lunch or dinner with wine. If your code prohibits this common activity, it could place your company at a competitive disadvantage.

**Keep it simple.** People don’t remember complex theory. Ethics violations should be obvious to a reasonable person. For example, we all understand why a government official shouldn’t accept gifts from special interest groups. But we don’t understand why employees can’t fraternize outside office hours. Obscure and Byzantine rules typically just get ignored.

## Making it work

While creating a workable code of ethics isn’t easy, it’s key to demonstrating your company’s commitment to integrity and fair dealing. Just don’t rush into establishing a code out of fear, or because it’s the latest hot business issue. Take your time, get employee buy-in and ensure the code will serve your company for many years to come. ■