

Profit Builder

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Special points of interest:

- Crisis Management—prevention is only the start
- Keeping an eye on the competition
- The team vs. the individual—getting the two in sync
- Problem solved—simple steps to success

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The economic facts about customers and loyalty

Studies show that the longer customers are loyal, the more profitable they become. Why? The answer has to do with what are known as the "3Rs" of customer loyalty.

Retention

An ongoing relationship with a customer creates a steady stream of revenue over time as the customer continues to buy products. The costs associated with marketing decline, and, in many cases, so do the costs of actually serving the customer who becomes familiar with the company, its product lines, and its procedures.

Related sales

The profit generated by selling new products and services to existing customers is great. The forward-thinking company develops new products by

listening to its loyal customers. They're therefore more likely to buy because the new product has been designed to meet their needs, and because they have a degree of faith in the company already.

Indeed, the original product may generate a minor profit compared to related sales over time. Costs are reduced, because new sales to existing customers require less marketing, no new credit checks, less paperwork, and less time. Furthermore, loyal customers are often less sensitive to price than new customers.

Referrals

Positive referrals are the best kind of marketing—and they're free! Research suggests that satisfied customers are likely to tell 5 other people about a good

experience, while dissatisfied customers are likely to tell 11 other people about a bad one!

Most businesses today don't work very hard at developing a relationship with a long-term customer. They focus nearly all their energy and money on getting new customers.

The reward structure within the business is geared almost exclusively to luring new customers. The biggest incentives often go to team members who bring in new customers, not to those who work hard at keeping loyal customers satisfied.

Marketing budgets like these are driven by the misconception that profitability is solely the result of increased market share, leading to the misguided concept that any customer is a good customer.

How to perform a breakeven analysis

Finding out what sales volume you need to achieve at least breakeven point is critical to managing your business's success.

Working out your breakeven point is a straight forward exercise once you know your variable and fixed cost figures.

Variable costs are those directly related to your sales levels in dollars or units sold. They include things like materials and supplies,

commissions on sales, sales incentives or bonuses for employees and shipping costs.

Fixed costs are those that stay the same no matter what sales volume your business has. Things like rent, insurance, licenses, wages for permanent employees, interest on loans and operational expenses fall under fixed costs.

To determine your breakeven point, follow these steps:

- Subtract your variable cost per unit from the sale price per unit.
- Divide the resulting amount by the sale price per unit to give you a ratio—called your Contribution Margin Ratio.
- Now divide your fixed costs by your Contribution Margin Ratio. The result is the sales volume you need to achieve your breakeven point.



Managing the crisis you tried to prevent

from *Harvard Business Review*

Almost every crisis contains within itself the seeds of success as well as the roots of failure. Finding, cultivating, and harvesting that potential success is the essence of crisis management.

In analysing the gamut of business crises, we can distinguish 6 stages of crisis management.

Stage 1: Avoiding the Crisis

Make a list of everything that could attract trouble to the business, consider the possible consequences, and estimate the cost of prevention. Some of the items on the list may be out of your control, but your response to them is very much within it.

Stage 2: Preparing to Manage the Crisis

Develop a crisis management plan. Consider things like action plans, communication plans, fire drills, and essential relationships. Should disaster strike, you can confidently manage the crisis from a position of strength.

Stage 3: Recognising the Crisis

This stage is often the most challenging. In general, you need to understand how others will perceive a situation and challenge your own assumptions.

Stage 4: Containing the Crisis

This is the phase in which the tough decisions have to be made and made fast. With all the information that may be coming in, you need to be able to quickly sift out what is important. Assign a dedicated person or team to contain the crisis, while others work to keep the business operating.

Also, assign a single spokesperson for your company who makes all the public comments. Keep all your stakeholders—customers, suppliers, team members etc.—well-informed. Don't let them find anything out 'through the grapevine'.

Stage 5: Resolving the Crisis

In this stage, speed is of the essence. A crisis simply will not wait. Pre-empt

consequences with definite action and responses as quickly as possible to maintain your tactical advantage.

Stage 6: Profiting from the Crisis

The final stage in crisis management is making lemonade from the abundance of available lemons. If a company has handled the previous steps flawlessly (that is, has not somehow managed to make the crisis even worse), the sixth stage offers an opportunity to recoup some losses at least partially and begin to repair the dislocations.

By all means avoid involving your business in a crisis. But once you're in one, accept it, manage it, and try to keep your vision focused on the long term. The bottom line with crises can be summarised in just seven words: Tell the truth and tell it fast.

"Chance favours the prepared mind."
Louis Pasteur

Characteristics of productive teams

Within the most productive teams:

- the team culture engenders trust, sharing, spontaneity, and risk taking
- members participate in setting specific, realistic goals; they agree with the goals and are committed to them
- team goals are as important as individual goals
- members contribute a diverse, yet appropriate, mix of skills and experiences
- members clearly understand their roles and shift responsibilities as needed
- the team has clearly identified norms for managing conflict
- intra-team competitiveness is managed
- all members feel empowered
- members are honest, straightforward, supportive, and tolerant of mistakes
- members are open to new ideas and perspectives, and are eager to do the right thing
- decision making is by consensus, rather than majority vote, when appropriate
- decisions are made on the basis of substance, not by the style or status of the individual proposing the idea
- communication includes all members, and a range of opinions is encouraged
- the team works constantly on improving its interactions as well as its performance.



SWOT your competition

An analysis of your competitors' strengths, weaknesses, opportunities and threats (SWOT) from an outside perspective can give you a good idea as to how they're positioned, and so help you in determining your own market strategy.

First identify carefully who your closest competitors are. For instance, an upmarket restaurant in an exclusive part of town may not consider a neighbourhood drive-thru as direct competition.

Now look at how they compete. What do they do well

and what do they do badly? Are they bigger? Smaller? Growing? Contracting? To what extent does each competitor represent a threat to your business?

Other things to look at in your competitor SWOT (this is by no means a comprehensive list):

- How many people do they employ?
- What are their main and secondary activities?
- Where do they advertise?
- What's their real benefit?
- Will customers believe

them? Why?

- What's their value proposition?

Once you've identified as much as you can, rate yourself on a scale of 1 to 10, then your primary competitors, on the following areas:

Product—quality, features, range, reliability

Customers—size of customer base, service standard before and after sale

Marketing—advertising volume and effectiveness, guarantees and warranties, payment terms, packaging, price.



Tips for providing tools and support

Providing your team with the right tools and support is vital in ensuring job satisfaction, and in turn, productivity and customer satisfaction. Consider the following questions regarding your business's tools and support systems:

- Does it have the systems in place that enable it to succeed?
- What are the barriers?

- What are the common complaints you get from your customers?
- What do your customers want that your current tools and systems don't support?

Be sure that any new support systems you consider are in line with your business's overall strategy. For instance, will the new systems help you better deliver the results your customers truly want? How will

they affect the way in which work is currently performed? Will the new systems require training?

Establishing effective tools and systems will help your team deliver better quality to your customers. Have your team always on the alert for ways to improve these systems and maintain your business's high standards.

“Avoiding the phrase ‘I don't have time...’ will soon help you to realise that you do have the time needed for just about anything you choose to accomplish in life.”
Bo Bennett, Year to Success

Promoting interdependence

Individual tasks and team tasks are equally important to success. The team cannot function without its members, who were all chosen for the contributions they could make. Show that each individual's ideas and skills are vital to the team's success by:

Finding ways to intertwine individual goals with team goals

If an individual isn't working toward the same goals as the team, his actions will make the team's goals harder to accomplish. The responsibilities of the

individual must coincide with those of the team.

Reminding members of the importance of their contributions

Each person was selected to join the team for a reason: individual skills are necessary for the team to accomplish its objectives. A well-constructed team cannot succeed without the contributions of all members. And remember to congratulate team mates publicly when they've reached a milestone or performed well.

Encouraging team responsibility

When a team chooses a course of action, it does so as a group, no matter where the idea originated. Accepting responsibility for one another will build trust and commitment.

Developing team problem-solving skills

When an issue arises, work together to come up with solutions. Establish a method for discussing and debating the merits of all the possibilities, and wherever possible, make sure the decision is a joint one.





5-step business problem solver

When you look at what you do every day, problem solving would have to be a big part of the job. Some problems are big, and you see right away that they are problems. Others are smaller, more frequent and so quickly solved that you may not view them as problems.

Of course, you'd feel more confident about decisions if you had more time, as well as complete and accurate information on which to base your decisions. But considering, like most managers, you're typically required to focus on something different every 8 minutes, that often isn't possible.

How can you ensure that you come up with the best solutions to problems given the limitations of time and information? Here's a five-stage process:

1. Define the problem

Start by making sure you're looking at the problem, not a symptom of the problem.

2. Set solution objectives

What will be the result of finding the right solution? What benefits or gains should an effective solution provide?

3. Generate alternative solutions

What are all the ways you (and your team) can discover to solve the problem?

4. Evaluate solutions and choose one

Systematically examine each of your alternative solutions identify the one that best meets your solution objectives.

5. Implement, monitor, and adjust your solution

Apply your chosen solution and measure the extent to which it meets the solution objectives. Fine-tune or correct, as needed, to meet all of your objectives as completely as possible.

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