LIFETIME, INTERACTIVE BUSINESS GUIDE
A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Build a Successful Business Model

KNOW WHAT THE WINNERS DO!

Growth & Business Coach
David Gabbert
davidgabbertbusinesscoach.com

WIN AT BIZ®

BUILD A SUCCESSFUL BUSINESS MODEL

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

TABLE OF CONTENTS

BUILD A SUCCESSFUL BUSINESS MODEL

Introduction

Men and women are managing businesses, selling and delivering products and services all over the world every day. We all know how difficult it is to take a step back from our daily routines, and make time to really evaluate the competitiveness of our company's business model. Many of us have a passion for managing people and businesses; many of us believe we can sell a service or product better than the existing competition. Some of us may want to be, or are presently in, our own business, hoping to be more in control of our financial futures. We each have a love for doing something in particular, and enjoy combining our passions with our work and our livelihood. After all, why not make a living doing what we enjoy?

These may all be good reasons for becoming involved in the world of business management or ownership. Nevertheless, the first and most practical step to financial success in a successful business is to keep your enthusiasm from carrying you down a path of blind optimism. Building a successful company takes a lifetime; the start-up phase alone will require an investment of at least three to five years. Yet according to the Small Business Association's Office of Advocacy, more than 50 percent of new businesses with one or more employees do not last even five years. A business owner not only sacrifices great quantities of personal time but also risks capital, often personally guaranteeing company debt. It can be a financially and emotionally painful experience to fail.

Instead, invest time in gathering the information you need to build a business model—one that will offer you a better chance of success. If you are currently operating your own business, starting a new business, or are the manager of a business, this exercise will help you improve your business model and strengthen your company's strategic position, profitability, and continued success.

The best chance for continued success in a competitive business environment is to develop a business model that will provide the highest percentage of success in capturing market share. Most people in business have never walked the path that they have just chosen; they fail to do the necessary homework and planning relative to the company's business model. Most often this is because many business people simply don't know what they should be planning, what questions to ask, what decisions need to be made, or what type of information they should be researching. Businesses owners who do not make educated decisions about their model will not satisfy their customers enough to earn their loyalty.

In reality, every business has a model; however, it is usually just a by-product of how the business operates anyway. Your goal should be to create a successful business model based upon planning and research, and focus on deliberately accomplishing specific objectives. This exercise is just as important for existing businesses as a new start-ups. In fact, every business should analyze how to improve their business model annually. How else can we expect to maintain a competitive advantage in the face of ever-changing customer wants and growing competition?

Consider for a moment why some businesses in the same industry fail while others succeed. For example, in the retail furniture business, most retailers look the same. They may offer different price points and quality of merchandise, but they all tend to market to a local geographical area through newspaper and television ads. They typically present a large selection of merchandise in attractive room-like displays, offer brand-name furniture, provide immediate delivery from a local warehouse, service merchandise defects under the manufacturer's warranty, and extend attractive financing terms.

Yet if a retail furniture store is going to develop a strategic position that will capture a larger market share, its business model must stand out from the competition. Something in that business model must satisfy a customer's wants better than anybody else. For example, consider a furniture retailer who selected a narrower target market and offered only high-end contemporary furniture. The company partners with furniture manufacturers to offer custom options that its customers want, and markets the furniture under its own brand name rather than selling a brand name that the competitions offers. The merchandise is sold nationally, rather than locally, through nice catalogs and a website, allowing the customer a shop-at-home convenience. This is a real, successful business model, and an example of how a business can differentiate itself from the competition by focusing on a better product, a better sales process, and a better delivery system. In other words, the retailer succeeded by completely satisfying the target customer's wants in a smaller segment of the market.

Developing a business model that will stand out from the competition is not easy. First, you must know what questions to ask. For example, what benefits do your customers really want, how will they respond to your advertising, at what price points do they lose interest, what are your customers' purchasing frustrations, is the size of the market large enough to generate the required revenue, and what types of skills will your salespeople need? Obtaining the correct answers to your questions will require accurate research about both your target customer and your competition. It will undoubtedly be easier to get the right answers while you are actively operating a business.

It will also be easier for you to build a successful business model once you understand how the model can make the difference between success and failure in the real business world. The free, separate supplement to this e-book includes interviews with entrepreneurs who have competed in this world, and which will help you understand the challenges you'll face in starting, operating, and maintaining a successful business. In the e-book now in front of you, you will learn how to evaluate witness how they survived by continually adapting their models to an ever changing, competitive market.

Every successful business model must offer a product that answers some demand, as well as develops a strategic position that will separate your company from the competition in the customer's mind. In this e-book we will first review ways to achieve this goal by examining the product, how it is sold, and how it is delivered, as well as evaluating customer touch points and the importance of answering your customer's purchasing frustrations, emotions, and desired benefits. We will also talk about ways to assess the customer's perception of your product's value.

Building a successful business model will also require evaluating the company's revenue growth potential. This e-book will help by showing you how to research price points and market size relative to the competition, as well as possibilities for a renewable revenue stream. Every successful business model must have the potential to out-market its competition and capture a sufficient share of the company's target customers. You'll find many examples of these processes.

We will also examine what makes some business models more marketable to your customers than others. In order for your business to survive and be profitable, it will help to develop a business model that inherently possesses fewer risk factors. We will examine each of the risk factors that decrease the odds of a business's survival.

When you are ready to start formulating the development of a more successful business model, the action steps at the end of the book will show you how to use the information to thrive in the business world.

Win at Biz Scorecard

Every business needs to know how it is going to compete, meet the needs of its customers better than the competition, and generate enough revenue to operate profitably. The development and annual review of a well-thought-out business model is imperative to every business's success.

Perform the 26-point Evaluation Test

How often do you review and update your business model to improve your strategic position, growth potential, and profitability? This section introduces a 26-point evaluation test that will exhaustively, thoughtfully guide you through an objective evaluation of a business plan. For each of the points in the evaluation test, your job is to rate them frankly, assigning each with a *good*, *average*, or *poor* rating. The test will implicitly keep you honest, because giving yourself ratings that are fictitiously too high will only hurt you. Also keep in mind that this is not a pass or fail exercise, but rather a tool to analyze the weaknesses in your business model so you may proceed down a path of survival and success.

If you are completing the evaluation test for a new business, be aware you may not have all of the correct information. When you are not experiencing the business in the real world, it can be especially difficult to obtain accurate data about customer needs and wants, the size of the market, and acceptable price points. You must conduct thorough market research with your target market. Other than mismanagement and under-capitalization, lack of reliable information when you are building your business model is one of the biggest reasons for business failure.

The Test

For each of the business models presented as examples in this e-book, and eventually for your own, we'll follow the test below point-for-point. Once you have all the data you need to answer the questions, the test will be an easy litmus test of your business model's chances of success or failure.

The instructions are simple. Rank each evaluation point *good*, *average*, *poor*, *answer unknown*, or *not applicable*.

Product Risks

1. **Demand:** Is the purchasing priority
2. high; i.e., does the consumer have a real need for product?
   Comments:
   Ranking (*good*, *average*, or *poor*):

3. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments:
   Ranking (*good*, *average*, or *poor*):

4. **New product:** Is there a real demand?
   Comments:
   Ranking (*good*, *average*, or *poor*):

Competitiveness of Strategic Position

5. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments:
   Ranking (*good*, *average*, or *poor*):

6. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments:
   Ranking (*good*, *average*, or *poor*):

7. **Unique sales process:** Does your sales process stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

8. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

9. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

Customer Perception of Value

10. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
    Comments:
    Ranking (*good*, *average*, or *poor*):

11. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments:
    Ranking (*good*, *average*, or *poor*):

12. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?

Comments:
Ranking (*good*, *average*, or *poor*):

Revenue Potential

13. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments:
    Ranking (*good*, *average*, or *poor*):

14. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments:
    Ranking (*good*, *average*, or *poor*):

15. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments:
    Ranking (*good*, *average*, or *poor*):

16. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments:
    Ranking (*good*, *average*, or *poor*):

17. **Cross selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments:
    Ranking (*good*, *average*, or *poor*):

Marketing Effectiveness

18. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments:
    Ranking (*good*, *average*, or *poor*):

19. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments:
    Ranking (*good*, *average*, or *poor*):

20. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments:
    Ranking (*good*, *average*, or *poor*):

21. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments:
    Ranking (*good*, *average*, or *poor*):

Profitability Risks

22. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments:
    Ranking (*good*, *average*, or *poor*):

23. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments:
    Ranking (*good*, *average*, or *poor*):

24. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments:
    Ranking (*good*, *average*, or *poor*):

25. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments:
    Ranking (*good*, *average*, or *poor*):

26. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
Comments:
Ranking (*good*, *average*, or *poor*):

27. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
Comments:
Ranking (*good*, *average*, or *poor*):

A Case Study: Business-to-Business Product

Before we can talk about how to build a successful business model, it's a good place to show the 26-point evaluation test in action. The following story is based on an interview I conducted with John Peterson of Elliot Corporation, a start-up company, and reflects a true business experience. (The names have been changed for legal reasons.) By seeing how directly the strengths and weaknesses of John's business model affected the ultimate success of the business, you will be able to better grasp the importance of the material in this book—and how the evaluation test can help you invest your time and money wisely. In fact, at the end of Elliot Corporation's business story, you'll see an analysis of John's business model using the 26-point evaluation test.

Elliot Corporation
Business-to-Business Product

John Peterson was one of the leading commercial real estate brokers in the Denver, Colorado area for several decades. In 1991 John began to pursue ideas for other sources of revenue within the industry. John was a leader in the commercial real estate industry because he believed in going out of his way for his clients. He believed in delivering the highest level of professionalism, educating his clients and delivering the best overall value possible in the industry.

In 1991 John developed a software program that raised the level of customer service even more. This software program allowed John to do various valuations and comparisons of commercial real estate much faster than standard manual methods, enhancing the professionalism of the presentation to the client (property owners) and also to property buyers. The software proved successful: it saved time, increased productivity, and delivered better overall professionalism and value to clients.

The new software began to attract considerable attention from other brokers as well as from the owners of the commercial brokerage firms. As a result, John decided that this software product could possibly be the additional business he was looking for. The software product would be a proprietary product, being unique in the services it provided to their target market of commercial brokerage firms. There was literally no competition.

John made several trial presentations regarding the benefits of the software product to the owners of brokerage firms, becoming encouraged with the feedback he received. The owners were enthused about gaining productivity and professionalism, and also about increasing value for their clients. The brokerage firm owners visualized this product as having the capability to give their firms an advantage in the competition for listings, giving them the edge they needed to increase their market share.

With that information, John and his partner did some revenue and expense projections along with some initial capital investment projections, searching for additional private investors. The business model, from a financial risk assessment, was relatively high due to the large fixed operating costs that would begin right away and the large front-end investment required to develop the rest of the proprietary software package. The partners agreed that they would need to develop seven software programs, each with four separate elements in order to cover all the different needs of various brokerage firms in the United States.

They were successful in raising the money from private investors and began to develop the software. The name of the new company was Elliot Corporation. As the partners experimented with the Elliot business model, they were still feeling out the marketplace for an acceptable price point. Since there were no similar products on the market, John could not conduct any price comparisons. There was never a question as to how the product was going to be marketed; they knew direct marketing methods to the owners of the brokerage firms via letter, telephone, and trade shows would give them the best return on their time and marketing dollar. To their advantage, they already had relationships with many brokerage firms around the country.

Early in the game a brokerage firm in Baltimore approached them about the product; however, the firm wanted exclusivity for the Baltimore area. The Baltimore firm believed the product would give them an advantage in the marketplace if they had exclusive use of the software. The merchandising strategy of granting exclusive rights to the use of the software to one broker in each major metropolitan area would considerably reduce the number of potential customers. As a result, merchandising the product with exclusive geographical rights would require a higher price point, somewhere in the neighborhood of $30,000 to $40,000. This merchandising strategy created a new question: How would revenue growth occur in a smaller client base? Originally, the plan was to generate recurring revenue from software updates and training fees.

Within nine months of marketing the product, John discovered there was demand for the product; however, there was too much resistance to the price tag of $30,000 to $40,000. With that feedback, they decided to alter their merchandising strategy and pricing. John decided to sell any one of the 28 software programs individually, which would drive the price of an individual module down to approximately $1,500 each. They would not offer exclusivity, which would expand the potential market to every firm in the United States, improve selection and freedom of choice for the client, while making the product more affordable for everyone. The changes would also improve Elliot_ Corporation's opportunity to generate a healthier recurring revenue stream from a larger client base.

The new merchandising and pricing decision proved to be successful in generating revenue. With thousands of brokerage firms to whom to market in the United States, the training and set-up of new clients, and the day-to-day task of managing the business, there were simply not enough hours in a day. John decided that in order to generate enough revenue, they would have to hire sales reps throughout the country to gain the product exposure that was necessary.

Eventually, two serious roadblocks emerged. First, even though the owners of the brokerage firms were enthused about the perceived benefits of the software product, the individual brokers, who were the users of the product, were reluctant to use it. The individual brokers would use the software initially, but would not adjust to it as an everyday business tool. The owners of the brokerage firms were not motivated to buy additional programs or updates when they saw this lack of enthusiasm among their brokers.

The second serious roadblock was the failure of the sales reps around the country to sell the product. John discovered that reps were overwhelmed with the amount of brokerage knowledge needed to be successful at selling the product. John could sell the product himself, but others with less brokerage knowledge failed. Additional training of the sales reps proved futile. John soon realized that the product required someone with extensive broker knowledge to sell it successfully.

Months of managing Elliot Corporation, making merchandising and marketing adjustments in search for a successful business model, turned into five years. The product was being sold, but the revenue was not enough to generate positive returns on time or capital. The initial capital John had raised was just about gone. Due to broker's resistance to the product, the target market audience shrank, and so did revenue projections as a result. John decided to liquidate the assets and close the business.

As you can see, operating a business in the real world often differs from what you first imagine it to be. The real world marketplace quickly uncovers flaws in any scheme. The secret is to find the answers to some important questions before you invest time and money. It is possible to collect viable data if you are patient and invest time in the research—and it helps if you are already working within the industry. Whatever the case, you must start the process by asking the right questions; the 26-point evaluation test will help you with that.

Remember, many times it may be wise to invest less capital and simply start small until you have tested the business model in the real world. The following will give you an example of how we have applied the 26-point evaluation test to Elliot Corporation's business model.

Elliot Corporation
26-Point Evaluation Test

Rank each evaluation point – good, average, poor, answer unknown, or not applicable.

Product Risks

1. **Demand:** Is the purchasing priority is high; i.e., does the consumer have a real need for product?
   Comments: This is a new product.
   Ranking (*good*, *average*, or *poor*): Unknown.

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: Product requires education to understand the potential benefits.
   Ranking (*good*, *average*, or *poor*): Poor

3. **New product:** Is there a real demand?
   Comments: Feedback from the owners of the brokerage firms was positive; however, acceptance of the product from the user (individual broker) was initially unknown. The real marketplace proved demand to be poor by the individual broker.
   Ranking (*good*, *average*, or *poor*): Unknown.

<u>Competitiveness of Strategic Position</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: This is a new product and no competition exists that offers like benefits.
   Ranking (*good*, *average*, or *poor*): Good.

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: There is no product on the market that offers like benefits.
   Ranking (*good*, *average*, or *poor*): Good.

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: There is not any competition, however, the sales process was excellent since the owner was the primary sales consultant.
   Ranking (*good*, *average*, or *poor*): Good.

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: There is no competition, however, the delivery process is acceptable.
   Ranking (*good*, *average*, or *poor*): Good.

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: There was not any competition, however, the touch points were directly with the owner.

   Ranking (*good*, *average*, or *poor*): Good.

Customer Perception of Value

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
Comments: The perceived benefits of the actual user were not known initially and proved to offer little benefit to most users in the real marketplace.
Ranking (*good*, *average*, or *poor*): Unknown.

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
Comments: The emotional benefits to the user were not known initially and proved to create negative emotions in the real marketplace.
Ranking (*good*, *average*, or *poor*): Unknown.

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
Comments: The frustrations to the user were unknown initially and proved to create negative frustrations in the real marketplace.
Ranking (*good*, *average*, or *poor*): Unknown

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
Comments: Assumptions about initial price points proved to be wrong in the real marketplace. All products were re-merchandised and re-priced at lower price points.
Ranking (*good*, *average*, or *poor*): Unknown.

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
Comments: There were assumptions about the number of unit sales needed, however, since the original price points were lowered, the required number of unit sales had to be adjusted upward in the real marketplace.
Ranking (*good*, *average*, or *poor*): Unknown

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
Comments: The market size was sufficiently large. Every commercial real estate broker was a potential prospect and there were not any competitors with like products.
Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: Once the software was sold, there was not any potential to generate equivalent software revenue from the same customer.
    Ranking (*good*, *average*, or *poor*): Poor

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There were opportunities to sell existing customers upgrades to their existing software as well as training services. Since the software did not generate renewable revenue, the up-selling would serve to replace lost software revenue from customers rather than grow revenue.
    Ranking (*good*, *average*, or *poor*): Average

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every commercial real estate broker) were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: It was cost effective to reach a prospect via telephone or trade show, however due to the complexity of the software, it proved costly to demo the software face to face around the country. It proved difficult in the real marketplace to justify the cost of the sale relative to the revenue being generated.
    Ranking (*good*, *average*, or *poor*): Average

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was convenient for the buyer to purchase at his or her place of business, however, the product was not easy to buy relative to the decision making process required.
    Ranking (*good*, *average*, or *poor*): Average

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: It was easy to state the known benefits in a marketing statement. However, since most of the marketing was conducted via the telephone, a print marketing message was not an important factor generating revenue.
    Ranking (*good*, *average*, or *poor*): Good

Profitability Risks

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: Initial projections were promising; however as prices were lowered and anticipated demand failed in the real marketplace, the costs relative to revenue increased.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Initial projections were promising; however as prices were lowered and anticipated demand failed in the real marketplace, the costs relative to revenue increased.
    Ranking (*good*, *average*, or *poor*): Average

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Since the product does not generate continued revenue, you must continue to invest in marketing to generate new sales to replace lost revenue. There was limited potential to generate revenue at lower costs to existing customers through up-selling the services discussed earlier.
    Ranking (*good*, *average*, or *poor*): Poor

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale was fee-based and generated revenue.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: Almost all of the expenses were relatively high fixed costs and began to accrue right away.
    Ranking (*good*, *average*, or *poor*): Poor

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: There were large capital investments in the development of the software as well as the financing of front-end sales and operating expenses.
    Ranking (*good*, *average*, or *poor*): Poor

Hindsight in this example offers us the luxury of 20/20 vision. You will not have that luxury in making your own decisions about the structure of your business model. Even though the founders of the Elliot Corporation were working inside the industry, you can see from this example how important it is to take the time to find the right answers in an environment that duplicates the real supply and demand of the marketplace.

More interviews with business owners who have started their own businesses are available in the free supplement to this e-book, *"If I Knew Then…": Case Studies that Could Save Your Business*. They provide great learning experiences without a risk to your time or money, and will better prepare you to make decisions about how to build a successful business model. A thorough understanding of what successful business models have in common is critical—as well as an understanding of why other business models fail. The case studies are intriguing, in that they offer an insider's view of how each of these business owners ultimately found success only after years of adjusting their business model to real world competition and their customers' wants.

The rest of this e-book will break down the categories of criteria you see in the 26-point evaluation test—product risk, competitiveness of your strategic position, customer perception of value, revenue potential, marketing potential, and profitability risks—so that you need not judge the strength of your business model with 20/20 hindsight alone.

Product Risk

Demand Factor

What is the real demand of your product or service? Is it a high-priority item on the list of the many things that a business or consumer purchases? Is the product or service important to your target market? For instance, every business needs insurance, but a bad-debt collection service may be a low priority because many businesses can successfully collect their own receivables. A consumer needs personal care products, however, and would place those items high on their priority list. But a new sofa is one of those purchases that can usually be delayed.

So, the point here is simple. To generate the amount of revenue you will need to stay afloat, you have a better chance of success if you sell a high priority item or service.

Win at Biz Scorecard

Your product or service must be important enough to your target market that it is a high-priority purchase.

Easy to Sell

Confusing or obscure products and services need to convey knowledge to a customer before becoming salable, so beware! Any new products that requires a change of behavior will be the most difficult to sell. I am sure you can think of several purchases that you have delayed simply because educating yourself to make a smart purchase is just too much work.

On the other hand, products and services that are needed, wanted and easily understood will be the easiest to sell and have the best chance for success. Think about the products and services that you need, want and are easily understood, that you and your friends routinely purchase. These include food, shelter, clothing, transportation, communication, music, entertainment, health care, travel, pet care, reading material, educational material, personal care products, and the many services that make your life more pleasant and save you time. You are probably thinking, “If the product or service is something everyone understands, needs and wants, won’t the marketplace be awfully crowded?” Some times the answer is yes and sometimes it is no. For example, what could be more crowded than the women’s retail clothing business? Yet I recently read an article about a woman who positioned her business to satisfy the needs of a niche in women’s clothing that was not being fulfilled in the marketplace. This niche was trendy, custom made, affordable clothing for younger plus size women. Whenever you can differentiate yourself to meet a need of a specific niche in the marketplace, it can be a winner, even in a crowded market.

Win at Biz Scorecard

Are the products or services which you are trying to sell needed by the consumer, and are they easy for the consumer to understand?

New Products

If this is a new product or service, is there a viable market for your product at a specific price point? Have you tested the acceptance of the product or service and the price point in the real world marketplace? It pays to take the time to do a real world market test before you start investing a lot of time, capital and debt into the business plan. Consumer behavior patterns, preferences, purchasing decisions, and emotions are very difficult to forecast. Do not guess; test your product or service in the real world marketplace. It is important to duplicate real supply and demand situations so that your tests are authentic. Because accurate answers can be difficult to obtain, the next best strategy is to start small until you have been successful at uncovering all of the answers to these questions.

The Elliot’s business model in the beginning of this chapter is a great example of both the importance and difficulty of testing a new product. The owners of the Elliot Corporation start-up were already working in the industry, so they had the advantage of inside information. Yet even with the advantage of years of experience and inside contacts from whom to collect reliable feedback about their new product, the initial testing and gathering of information about the acceptance of the product proved to be different in the real world.

Win at Biz Scorecard

Beware of the unknown risks of a new product or service.

Competitiveness of Your Strategic Position

A strategic position creates a meaningful place for you, relative to the competition within your market. For example, consider all the shoe stores in your marketing area. What factors influence you to shop at one shoe store rather than another?

- Begin by asking yourself the following questions about your business:
- What are you really selling?
- Does whatever you are selling compel consumers to do business with you rather than the competition?

Most businesspeople focus on the product or service when they think about what they are selling, but others will argue that you will be more successful if you focus on position. That includes differentiating your product or service from the competition, developing unique sales and delivery systems, emphasizing the total customer experience with exceptional service at every touch point, and creating operational or technological advantages or pursuing a completely new market segment. Combining an operational cost and price advantage with any of these strategies will strengthen your strategic position.

Developing answers to these questions will be a good place to start in developing a successful strategic position for your company.

Maturity of the Marketplace

The point in time at which you enter the industry can make a difference in your success. It is more difficult to be successful when you are entering a mature market than a relatively new market. If you are going to enter a mature market, you will need to be more remarkable than the competition if you are going to capture market share.

In most cases, it is easier if you are early or first. The Guaranteed Turf Care business model explained in the supplement to this e-book is a prime example of the advantages of entering a market early. Guaranteed Turf Care was a start-up chemical lawn care company in the mid 1960s. The owner was 16 years old and made numerous mistakes, but there are two reasons this business model succeeded. First, the business owner out-marketed the competition with long hours and hard work. Second, there was so much demand and so little competition in this new market that the inexperienced founder could make a lot of mistakes and still succeed.

On the other hand, it can be helpful to have some competition; it gives you a bar against which to measure yourself. Honestly evaluate the competition. Learn from them what the customer wants, what works and doesn't work, and what frustrates those customers. Examine how you compare to them and where you will compete with them. What are their popular price points? What are your competitors' financial resources? How do they attract, train, motivate, and compensate employees? Understanding your competition is an effective route to differentiating yourself from them.

To learn more about your competition, invest time in shopping them as a consumer of their product or service. Think like a consumer; shop like a consumer; ask the same questions a consumer would ask. Where does the competition disappoint you? Where does the competition excel? Where can you deliver customer benefits that the competition cannot? How is the customer going to perceive you to be different from the competition?

Win at Biz Scorecard

Is the market you are about to enter young, or mature and teeming with competition? If it is the latter, you must gain an understanding of the competition before you can build a business model that will differentiate yourself from them.

Product Uniqueness

What is going to get people talking about your product? What is going to make your product stand out from the competition? When you focus on the product or service and the brand development of what you are selling, you will probably start with developing a product that people want. The next step, development of brand awareness, comes with time.

To differentiate and attempt to create something that people can talk about, build as much proprietary ownership or exclusivity into the product or service as possible. In reality, nothing is ever truly exclusive in the marketplace; there is always another competitive choice for the buyer. Yet with some planning, one can create a sense of exclusivity of the brand by private labeling the product you are selling or the product you are using in a service.

Brand names can develop a uniqueness of their own by offering personalized private label names that stand out from the crowd. For example, specialty food items, cosmetic products, fabrics, and bedding products can all be privately labeled to become exclusively yours. Products that you use as part of a service can also be privately labeled to give it a sense of exclusivity and valuable difference. For example, a lawn care company can develop brand names for exclusively blended fertilizers used in its service. A company that finishes garage floors can promote exclusive, branded products that will not chip or peel.

When a business has not created any product or brand name uniqueness, the product or service will be reduced to a commodity. When your product gets reduced to the status of a commodity, competition is everywhere and profit margins are squeezed. How many times have you simply shopped by phone or Internet for the best price because you could not differentiate between the benefits of a product? If you offer products that people want along with a sense of something special, you will have an advantage.

Seth Godin, in his book, *The Purple Cow*, talks about how most companies are invisible today because consumers have so many choices and so little time that they are not going to go out of their way to buy anything. Remember that the only way to get the consumer’s attention today is for your product or service to be so extraordinary that people will talk about your business in terms of your outstanding product. Think about the businesses your friends are talking about and why they are talking about them—these brands can boast something unique. These companies have been successful at building their brands with word-of-mouth advertising by offering a product or service that is more outstanding than their competition.

Keep in mind that they all started small without any brand-name awareness. The reason they succeeded at building a noteworthy brand is that they figured out what their target customer wanted and how to differentiate their product or service from the competition.

Win at Biz Scorecard

- **What does your product or service look like to the consumer?**
- **Is it a product that people want?**
- **What are you doing to your product or service that would make it remarkable relative to the competition?**
- **Is it remarkable enough that people will talk about it?**

Unique Sales and Delivery Processes

How many times do you purchase a product purely because the sales or delivery methods are so convenient? Michael E. Gerber, in his book *E-Myth*, suggests ways to look at what you are really selling. He suggests that you should not dwell on the product or service, especially if others are already offering it, but instead focus on the business model as what you are really selling.

Your business model can be defined as how your business processes interact with the customer to sell the product or service, and how your business delivers it to the customer. The processes in your business model need to give consumers an improved, alternative method for purchase and delivery relative to the competition. For example, a grocery store may offer online purchasing and home delivery as an innovative way for consumers to do their weekly grocery shopping. This would differentiate the store from its competitors who sell groceries the traditional way, requiring consumers to invest considerable time to physically go to the store to do their routine shopping. Certain consumers would switch their grocery dollars to the online/home-delivery store to save time and reduce shopping frustrations. These consumers are willing to switch because they prefer the business model—even though the products are identical.

How about having the oil in a car changed? Rapid Oil Change entered a well-established market—one with a gas station on every corner that could change your oil by appointment. Yet Rapid Oil Change was successful at entering an oversaturated market by offering drive-in convenience with a quick oil change while you waited. No appointment was necessary; your car did not have to be left at the gas station; and the price was competitive. Rapid Oil Change offered a better business model.

Yet another example is how specialty candles and gourmet foods are being successfully marketed today by the home party business model. In short, there are always opportunities to develop new, innovative processes to sell and deliver a product or service. You will read more about building business processes and effective marketing programs in Books 4 and 2 of the Win at Biz series, respectively.

Win at Biz Scorecard

- **How would your target market like the product or service to be sold and/or delivered?**
- **Does your business model meet the market's needs in these two vital areas?**
- **Does your business model offer more purchasing conveniences than the competition?**
- **Do your business processes beat the competition in both finding customers and delivering the product or service?**

Unique Touch Points

Another way to look at what you are really selling is by examining the total customer experience. We all like to be treated as though we are special and important. Do you remember your last purchasing experience where you were made to feel extra special? Did you talk about your experience to others? *Chocolates on your Pillow Aren't Enough*, by Jonathan M. Tisch, offers several great examples.

To begin with, you will need to examine what your customer wants every time they come into contact with your company. What types of feelings and emotions do they want to experience at every touch point? The total customer experience must be remarkable every time and place a customer touches your company.

If you are going to succeed in getting people talking about the company, you must be successful at getting people talking about the total customer experience, not just the product or sales and delivery systems. This includes every contact from the advertising literature, the website, the initial sales contact, the purchasing process, the delivery of the product or service, the performance of the product, the payment process, and the resolution of a complaint. Your goal as a businessperson must be to create rewarding, feel-good experiences every time a prospect or customer touches your company.

Win at Biz Scorecard

Do every one of your customer touch points create a customer experience so wonderful relative to your competition that people will talk about you?

Customer Perception of Value

Offering Real Benefits

Do you really understand what benefits are perceived to be important to your customers? Your success depends upon satisfying your customers' needs, understanding how they behave, and at what price points they perceive the benefits of your product or service to represent an outstanding value. Remember that if you are selling to a retailer, distributor, or manufacturer you must understand the needs of both your customer and the end user.

The task of identifying your target market and building an accurate demographic profile of your typical customer will require a lot of research. As you research your customers' wants and needs, attempt to develop a narrow—rather than broad—market segment to target. For instance, Company A may decide to specialize in marketing work boots, Company B dress shoes, Company C sports footwear, and Company D all three categories. Of the four companies, Company D will have the most difficult time carving out a place in the market. Don't make the mistake of trying to be everything to everyone.

In order to develop a perceived value that is both meaningful to your target customer and different from your competitors, you will need to thoroughly understand what benefits are important to your customer. The best way to learn everything there is to know about him or her would be to work directly with customers from inside the industry. This may mean working for a competitor or starting your own business very small so you can conduct market research. If the nature of the product or service allows you to target people who would be in the market for what you are selling, you can contact them for valuable information. You may also want to consider talking with industry suppliers to gain valuable insights into your target customer.

The most important thing to remember is to never stop asking your customers what they want and need. What benefits will improve customers' perception of the value of your product? For example, several customers can be shopping for furniture and each shopper has different needs that would trigger a purchase. These could be any of the following: shop-at-home convenience, professional design help, effective transfer of product knowledge, more custom options, immediate availability, brand name recognition, more comfort, superior construction features, or a particular style or status statement. Do not make generalizations about a broad target market; do not make assumptions about what you think the consumer wants. Your most accurate and least expensive method of research will be to simply go out and talk to your potential customers. Find out who your customers really are. Do they have an interest in purchasing what you have to sell at the price for which you need to sell it? What types of benefits do they desire? What types of feelings and emotions are involved in purchasing the product or service? What are their frustrations in purchasing the product now? What do they really want?

Only when you understand the true answers to these questions about your target audience can you begin to develop a perceived value that is superior to your competition.

Win at Biz Scorecard

Value is a perception. The only opinion of the strength of your value offering that matters is the opinion of your target customer. Do you offer benefits that will create a better value in your customer's mind than your competition?

Emotional Benefits

Most types of products or services invoke certain types of feelings and emotions in people during the purchase. You will need to uncover what these feelings and emotions are. Then you will need to develop sales systems and strategies to satisfy them. Typically when positive emotions are related to the purchase of a product, it will be easier to sell. Sales involving pleasant emotions will be less price-sensitive and less subject to a purchasing analysis or lengthy decision-making process.

Think about the last time you purchased a new piece of clothing, something to dress up your home, or a new car or boat. Chances are, you will both recommend that business to others as well as do business with them again if the sales process satisfied your emotional excitement and quelled your apprehensions. Many purchases are filled with a variety of emotions and expectations that must be answered in order to complete the sale. When your customer has been fully satisfied, you will have increased customer value.

Win at Biz Scorecard

- **Have you identified what type of feeling and emotional needs you will need to satisfy?**
- **Do you have training and business processes in place to satisfy these wants better than the competition?**

Frustration Level

Every customer has experienced frustrations when purchasing a product or service. These frustrations may be experienced while making the purchase, during the time between the purchase and delivery, the delivery method itself, obtaining service after taking delivery, the payment method, or in the performance of the product. Michael E. Gerber suggests that you need to uncover what these frustrations are, develop business processes within your business model that will remove the current frustrations, and deliver what the customer wants. Your business model must alleviate these current frustrations better than the competition does.

Think about your last frustrating experience with a company. Perhaps a retail store could not find what you wanted, or the sales clerk lacked knowledge about the product. Maybe the item was out of stock, or it took too long to get the item you wanted out of the back room. Perhaps the line at the check-out counter was too long, or maybe it was too much hassle to return an item. With a service business, it may be the length of time it takes to get an estimate, the length of time you wait for service, the sloppy workmanship, or the length of time you wait for corrective service. How about the last time you tried to phone a bank to get customer service and you had to contend with the automated voice system?

There is no denying that a frustrating experience during the purchasing or performance of the product will quickly deteriorate the product’s value in the customer’s mind.

Win at Biz Scorecard

- **Do you know what the purchasing frustrations are for your target audience?**
- **Do you have a strategy in place for processes that will beat the competition in alleviating these consumer frustrations and delivering what the customer wants?**

Revenue Potential

Price Point Acceptance

Have you determined your price points? Have you shopped your competition? How does your customer perceive the value you offer relative to the competition? It is important to research the product or service thoroughly to get an accurate sense of what price the market will bear and where the competition is forcing the prices in your marketplace. Even when you have exceptional products or unique sales and delivery systems, there is always an alternative purchasing option for your potential customer. There is also always a level of price point resistance where consumer demand will start to decline, and where revenue cannot be maximized.

The secret of your research is to determine what that price point is. Ask yourself the following questions: Can you be profitable at those price points? Can you operate at the same cost efficiencies as your competition? If you do not have the same cost efficiencies, will you be able to be profitable at lower operating margins? It does not make any difference how much revenue you bring in if it is not profitable revenue.

For example, if you were to consider starting a new rapid, mobile oil change service for personal automobiles that performs the oil change at the customer's home or business, how would you determine if it were financially viable? How much revenue would you need to cover the payroll costs of one service person, the operation of one service vehicle, the costs for administrative support, marketing, and a profit margin? How many unit sales must you make at a specific price point to realize the required revenue? The ability to achieve that desired revenue number will ultimately be determined by a price point multiplied by the number of unit sales (or customers) that one service vehicle can perform in one year.

In order for a mobile oil change service business to be competitive, efficient, and profitable, you will need to successfully develop dense routes that keep drive time between customers to a minimum. In other words, your price point will need to appeal to a large market in order to develop thousands of customers. In the example below, we have determined 2500 oil changes at $53 per customer will generate the required revenue. The question your customer research must accurately answer is, "Will the price point of $53 be acceptable to a large enough audience to reach your target number of unit sales?"

Example 1: Price Points for a Mobile Oil Change Business

Payroll cost for one service vehicle $35,000
Operation of one service vehicle...............................$15,000
Materials, supplies, etc...$12,000
Administrative support...$35,000
Marketing...$25,000
Profit Margin $10,000
Total revenue needed 132,000
Service stops per ten-hour day with dense routes......10
Service stops per year, based on 250 days 2500
Price needed per stop to achieve desired revenue......$53

Required Unit Sales

To accurately determine the number of unit sales you will need to generate profitable revenue, you must know what price points the market will accept. Whether you have already started a business or you are about to embark on a new business venture, most people fail by not talking to enough prospective customers. Most business people fail because they do not understand what the customer really wants from the product or service, the real benefits that their customers seek, and at what price point those customers lose interest.

Think about all of the factors that affect a purchasing decision other than price. It could be simply the convenience of making the purchase, the status connected to the product or service, the education and confidence created by the salesperson, a feel-good emotion that is triggered from the experience, or an opportunity to save time; or perhaps it creates a sense of safety, reduces frustration in their daily lives, or makes their daily lives more enjoyable. Ask yourself why does one person chooses to buy clothing online while another person chooses to go to a department store or the mall? Why does one buy a custom-order sofa from one salesperson at Store X versus the previous salesperson at Store Y? Why do women purchase massages and pedicures? Why do people spend money to have their heating ducts cleaned or purchase extra insurance? Why would you spend money to have your windows washed, lawn mowed, or house cleaned when you could easily do it yourself? Why does someone patronize a particular restaurant and not another?

There are reasons why one wristwatch will easily sell for $5,000 and another will experience sales resistance at $150. In order to gain an understanding of the relationship of unit sales and price points, you will also need to understand the value of the other benefits that drive purchasing decisions.

Win at Biz Scorecard

- **Do you know how much they will pay before unit sales start to decline?**
- **Have you computed the number of unit sales you will need to generate the required revenue?**

Win at Biz Scorecard

- **Do you really know what benefits your customers are willing to pay for?**
- **Do you know what price they are willing to pay?**

Market Size

Once you've done your research on revenue targets, number of unit sales, and price points, you must guesstimate the size of your market. Your target market must not only be large enough, but also it must be accessible and responsive to your product or service. Many businesses fail because after they have entered the market, they discover that the market is not large enough to produce enough revenue at the desired price. Do your research in this area. This is another good reason to start small. Next, identify the amount of competition that is pursuing your same audience at approximately the same price points; then determine if there is enough room for you to collect the revenue that you will need to stay afloat.

If you are offering real benefits relative to the existing competition and your product is in demand, you will be successful at growing your revenue if the market size is large enough. If the market is already quite crowded, there will need to be something unique about your business model that is going to beat the competition and enable you to capture a larger share of the market. Generally, the larger the market the better your chances are for initial success and continued growth.

The Daltons business model in the supplement to this e-book offers a very good example of a start-up company that continued to adapt the business model to a position where the marketplace offered growth opportunities. During this eight-year process, Daltons's revenue grew and the company developed its niche in the marketplace. Unfortunately, once the company positioned itself, the market size was too small to generate revenue growth.

Win at Biz Scorecard

The size of your target market, relative to the competition, must be large enough to generate adequate business volume; it must also be large enough to allow for revenue growth in future years.

Renewable Revenue

Does your product or service create a renewable revenue stream year after year every time you make a sale? For example, once you make a sale to add a new customer to a garbage route, that sale or customer will keep producing revenue year after year, as long as your systems provide customer satisfaction. Every new sale you make adds to the growth of the company.

In contrast, if your company specializes in remodeling kitchens, you have to develop efficient systems to continually find new customers to generate new revenue. In order to grow, you must find more new customers this year than you did last year. The chances for long-term revenue growth and success are greater if your product is a consumable that is used often and must be replaced (e.g., razor blades) or your service must be repeated often (e.g., garbage route) and the revenue stream continually recurs. In these situations, acquiring new customers adds to revenue growth.

Win at Biz Scorecard

It is much easier to grow revenue when the product or service lends itself to being purchased over and over again and creates a recurring revenue stream.

Cross-selling and Up-selling

Your easiest sale will always be to an existing customer. It is expensive to find a new customer and build a loyal customer relationship; for that reason it is important to be able to build additional revenue through the sale of additional services or products to your existing customer base.

Cross-selling would refer to the sale of another product type. For example, an appliance retailer may also sell televisions and furniture. *Up*-selling would refer to the sale of additional features of the primary product. For example, in a lawn service maintenance business, the sale of soil amending services such as core aeration, lime or gypsum applications, and over-seeding would all be considered an up-sell to the basic seasonal fertilizer and weed control program.

Any business model that offers a solid selection of products or services is able to successfully increase revenue through cross-selling or up-selling will have a better chance of success.

Win at Biz Scorecard

Increase revenue by cross selling and up-selling an attractive selection of additional products and services to your existing customers.

Marketing Effectiveness

You might have the best product in the world, but it isn't worth anything until people know it exists. How are you going to market the product or service? How are you going to inform your target audience that you exist?

Every successful business model needs reliable marketing methods to develop prospects. You must research marketing methods that are suited to your particular type of business. But the work doesn't end there. Once you have completed your research and made a list of your intended marketing methods, how do you know that these marketing methods will work well enough to generate sufficient prospects and revenue for every dollar spent on advertising?

The truth is that you will not know until you test your marketing results in the real world marketplace. If your marketing plan can satisfy the following criteria, the odds of building a successful business model that generates profitable revenue will be greater.

Ease of Identification

Can you identify potential prospects or buyers? If not, you'll have a hard time building a profitable business model. For example, a retail appliance, television, or computer store hoping to sell merchandise may be able to identify 500,000 target homeowners within a geographical marketing area. The dilemma is in determining which of these 500,000 homeowners is in the market for their specific products this month and how to reach them. The end result is a very expensive, blanket advertising campaign.

Compare that business model to a manufacturing business that designs and sells custom silk indoor plant landscapes to office buildings, shopping centers, government centers, and amusement theme parks. This business model can identify its potential prospects and use a much more cost-efficient, targeted advertising approach to generate revenue by simply contacting the owners of commercial properties and new commercial construction projects.

Cost per Sale

You can maximize your return on your advertising dollar if your business model lends itself to direct marketing methods rather than blanket, non-targeted advertising.

Consider the difference in these two business models. One company has a well-defined and identifiable target market of residential driveways in need of seal coating. In this example, the marketing effort can use direct marketing methods, such as going door-to-door and visually identify the driveways in need of seal coating. It's then reasonable to knock on doors, hand out flyers, follow up with telephone calls and meet face-to-face with their prospects in their homes. In little time, you will learn exactly how many doors on which you will need to knock to get a specific number of prospects. You will also be able to calculate how many prospects you will need to obtain a sale and the exact cost to obtain one sale. In this situation, the company is one hundred percent in control of the number of prospects that can be developed on a daily basis, the number of resulting sales, and the cost per sale.

In contrast, another company that is operating a retail tire store is dependent on the shopping convenience of its location and the number of people who know that the company exists. This business model has no way of knowing who is in the market for new tires and will therefore have to rely on expensive, blanket advertising methods to make people aware of their business. The tire store has no control over how many people can be motivated to come to their store each day.

Purchasing Convenience

How many of us have the time to run from store to store shopping for a particular item? A business model will have a better chance for success if your business model makes it easy and convenient for customers to buy what you're selling.

Essentially, the chances for a successful return on your marketing dollar will be higher if your customer does not have to leave his or her home or business. Motivating customers to come to you to make a purchase is difficult, requires a large marketing budget and is time-consuming for the consumer. The easier it is for your customer to make a purchase from you the more successful your business model. For example, can a purchase be made over the telephone, a website, a face-to-face visit at your customer's home or place of business? Is the product easy to understand? Can a purchasing decision be made without seeing anything? Can the product or service be explained via a brochure or website? Can a sample of the product be mailed to them? These considerations should help you find the benefits in your business model, or shape it to be more convenient to the consumer.

Marketing Message

It will be a marketing advantage if the business model has a unique strategic position that can be conveyed in a crisp, memorable marketing message. When your business model has unique benefits that your target customers want and you can tell them about in your marketing message, it gives your advertising program a competitive advantage.

For example, consider a retail store that sells a broad age range of children's clothing without a unique marketing message. How will they cost effectively convey their position in a crowded marketplace? Compare the chances of that business model's marketing success to a specialty infant shop specializing in toys, clothing, furniture, and supplemental care items—everything for infants. The key benefit of a specialty store with a narrow merchandising focus will be much easier to convey in a marketing message. A strong branding message will convert to a real marketing advantage. More information about how to market your business for success is offered in Book 2 of the Win at Biz series, *Develop Successful Marketing Strategies*.

Win at Biz Scorecard

- **Can you identify and reach potential prospects?**
- **Does your business lend itself to marketing methods that allow you to control the number of prospects you can develop?**
- **Can the consumer make a purchase without leaving his or her home or place of business?**
- **Do you have a marketing message that accurately conveys what you stand for in the marketplace? What you stand for must be true benefit to your customers.**

The Profitability Risks to Your Business Model

Margins

Do your price points relative to the cost of your product allow for high gross profit margins? It is important to realize that since most companies only earn a net profit before tax of two to ten percent, the slightest change in the gross profit percentage affects the net profit. It is a fallacy to think that you will make up for lower margins with increased revenue. First of all, revenue is expensive to generate; second, your cost of doing business does not stay constant, but rather increases incrementally with revenue increases. To succeed financially you must buy your products at the lowest possible costs and sell them at the highest possible margins while creating a superior value for your customer.

Win at Biz Scorecard

Your best opportunity for financial success is in developing a value product that warrants a high margin.

Sale Costs

Does your business need highly educated and specialized people to sell the product and service to the customer? In order to grow a business that requires employing professional people such as accountants, interior designers, architects, or anyone requiring specialized knowledge and skills, it will be necessary to be successful at finding enough people with the required talents to keep growing the sales volume. You will not only need to be successful at finding more and more skilled people, but also the business will need to be successful enough to generate the revenue that will be needed to pay the salary levels that skilled people will expect to be paid.

In contrast, compare that employment challenge to a dry cleaning operation able to hire unskilled labor to sell and service the customers and successfully deliver the desired results by placing the employees in an efficient, systems-run business. Typically, your chances for profitability will have less risk if the business can function with unskilled labor that can be placed in efficient training and operating systems.

Win at Biz Scorecard

The higher the cost associated with making a sale and servicing the customer relative to the revenue being generated, the higher the risk to profitability.

Cost of Continued Revenue

There is no question that the marketing costs to develop new customers in any business is expensive. In order to grow a business profitably, it is important that revenue can continue from existing customers at lower incremental costs. It is very difficult to grow a business properly if your only source of revenue is to continually develop new customers.

For example, consider a business that installs swimming pools. We can assume a swimming pool business is not going to get repeat business from a customer to install another pool anytime very soon. This type of business will be forced to invest heavily in advertising to continually develop new customers and revenue; they will not be able to benefit from continued revenue from their customers at lower costs. On the other hand, consider a company that sweeps commercial parking lots. Assuming the customers are satisfied with the work, revenue will continue year after year at lower costs than were invested to initially find and attract the customer.

Win at Biz Scorecard

Your most profitable sales are your repeat sales to your existing customers.

Customer Support Costs

Every company experiences customer service support costs after the sale to some extent. After all, it is imperative to develop happy customers who will talk about you; however, some companies will sell products or services that inherently incur higher after-sale support costs than others.

For example, consider the sale of a piece of artwork, a lamp or home accessory; these types of products are purchased, taken home, and never require any service. On the other hand, consider a very technical piece of equipment sold to deliver a precise function. Unless the equipment is sold with a fee-based service agreement, the support costs could be a drag on company profitability. Be careful that the product or service you are selling does not require ongoing customer service support costs.

Win at Biz Scorecard

Think in terms of variable expenses as being a low risk expense and fixed costs as a high risk to profitability.

Expense Structure

One way to assess the risk to profitability is to look at the structure of the expenses of the business. Is the business model going to require a large monthly fixed overhead every month? Is the business going to require large fixed monthly rent payments, large monthly lease payments for equipment, large marketing costs to develop prospects, and/or large payroll expenditures? Are you going to be able to generate enough revenue to cover the fixed and variable costs and generate a profit?

When fixed costs are high, shortages or fluctuations in revenue translate into loss of profit potential. A business with inherently high fixed costs increases the risk to profitability.

For any business, but especially a new start-up, it is ideal if the majority of the expenses are structured as variable. Variable expenses are expenses that are not realized unless revenue is generated, such as a sales commission, a production-related wage payment, or an outsourced service. What can help reduce risk more than not incurring an expense unless you make a sale? The more expenses you have structured as variable and the fewer expenses structured as fixed costs, the better your odds of profitability.

Capital Intensive

Risk can also be assessed by how capital-intensive the business is. Businesses that require a large investment up front in capital equipment and/or inventories will have more risk. New business ventures that inherently have a high fixed expense structure and a large initial asset investment will have a lower chance of success. Restaurants or retail stores requiring large start-up asset investments and incurring high fixed monthly expenses at the time of opening are examples of high-risk businesses. Service businesses, on the other hand, usually have low fixed monthly costs relative to variable expenses and lower levels of capital investment; they therefore have a much higher chance of success.

Once you analyze the risk, make a detailed cash flow statement and list the dollars you will have to invest in the business to get it started. Remember to also include covering the negative cash flow for expenses, salaries, and advertising costs that you will incur when you open for business and there is very little revenue. You must also remember to add any debt that you have secured that will have to be paid back.

Develop a projected profit and loss statement and determine what a realistic breakeven point will be. How many months do you anticipate it will take you to break even? How much cash will be required to make up the deficit? Make sure you add that deficiency to your initial investment in equipment and inventory. Most people are too optimistic and underestimate the initial investment and the amount of cash they will need to keep the doors open until the business achieves a breakeven point. Once you have completed your financial estimates, you will be prepared to search for sources of capital. In addition to banks and owner capital, also consider small business loans, outside investors, suppliers, and clients. Book 3 of the Win at Biz series, *Initiate Effective Financial Tools*, deals with financial education to help you complete some of the financial questions in the action steps at the end of this book.

Once you have determined the total startup cost, ask yourself if you willing to lose that amount of money. The reality of a new business is always very different from what you planned. Cash flow estimates are subject to risk because it is difficult to forecast future revenue and expenses for a new start-up. Most new business people will overestimate revenue and underestimate expenses. There are also market risks because it can be difficult to know how the marketplace is going to respond to your product or service. Competition is another wild card that creates risk. It is impossible to know if new competitors will enter the market or if existing competitors will re-position products or change marketing strategies to capture larger segments of the market share.

It is difficult to get correct and accurate information to all of the questions stated in this e-book before you open for business. For that reason, it is important to start your new venture out small with as little capital invested as possible. Think of your start-up company as an up and running marketing experiment.

When you do develop the answers to all of the important questions stated in the action steps to build your business model, you can make the decision to expand and invest more capital or exit.

Win at Biz Scorecard

Always set the limit as to how much capital you are willing to invest and lose before you open for business.

Additional Factors Affecting the Success of the Business Model

Working Inside the Industry

Keep in mind that the chances for success in a new business increase when you already have exposure to the industry you want to enter. When you are already working inside an industry and experiencing the business, you have a better chance to get correct and valuable answers to all the important questions you've read about here.

Study the business model in the supplement about Amcom Corporation. Both of the owners of this start-up company had valuable inside knowledge of the industry that gave them the insights necessary to assemble a successful start-up business model right out of the starting gate. There is nothing more valuable then being able to work inside the industry to acquire the experience you need to put together a successful start-up business model.

Win at Biz Scorecard

Working inside the industry before you develop your own start-up business model will reduce the number of expensive surprises and increase your changes for success.

Tab the Knowledge of Others

Do not make the decisions alone. The best resources are business owners who are both in your industry and those who are outside your industry. No matter how small you are, it is important to use an attorney and accountant to set up your initial business structure and financial books. Consultants with specific business skills can fill in the gaps where your knowledge and experience is lacking. You should also talk to your suppliers and industry experts to get a pulse on the current problems within the industry.

Win at Biz Scorecard

You can not put a price on the value of knowledgeable insights from experienced business leaders and specialized consultants.

Build Solid Supplier Relationships

It will be important to develop reliable supplier and distribution channels for the products and materials you will need to operate your business. Your working relationship with your suppliers will be one of the most important to your businesses success.

Your suppliers can give you valuable information about their products, other related products within the industry, become a partner to improve your inventory control, develop terms to improve cash flow, work with your customers needs to develop unique products, and be a valuable source for industry information.

It is also be prudent to have a list of back-up suppliers ready in case of emergency so product flow is never interrupted. Remember to always treat your suppliers with understanding and consideration; your suppliers are valuable partners in your business.

Win at Biz Scorecard

Treat your suppliers as your most valuable business partner.

Soul Search Your Level of Passion and Dedication

Examine the level of your own commitment. Are you really passionate about this venture? Are you willing to sacrifice your time and possibly money to be successful? Is your family supportive of the venture?

The marketplace is very competitive, and starting a new business is difficult. A start-up company needs a leader who is disciplined, extremely determined, and who will work tirelessly for success over a long period of time. I encourage you to read *Success Built to Last*, by Jerry Porras, Stewart Emery, and Mark Thompson. The book makes some excellent points about common characteristics of business-builders.

In order for a builder to survive long-term in the competitive marketplace, he or she will be required to be exceedingly persistent and determined in order to overcome the many failures that may occur in the search for success. In order to sustain yourself for a long period of time during this search, you will need to be pursuing something deeply meaningful to you.

Ask yourself the following questions: When you are following your passion, do you lose track of time; do you obsess over it; do you think of it as fun instead of work; would you rather be doing this than almost anything else? Remember that if achievement comes without a sense of meaning and fulfillment, you will not be likely to continue the mission over a long period of time.

If you do not really love what you are pursuing, you are going to lose to someone who does.

Win at Biz Scorecard

- **Ask yourself, are you really passionate and committed to building a business?**
- **Are the ideas you have and the path you are about to take really important to you?**
- **Do you believe your efforts are going to make a difference?**
- **Do you want to be spending your time doing this more than anything else?**

Common Mistakes When Starting Up

1. Not planning a successful business model
2. Inadequate market research about your target customer
3. Weak financial planning
4. Too little cash
5. Spending too much money on the wrong things
6. No written marketing plan
7. Starting a business for fun or just for the money
8. Not knowing your competition
9. Not building the business around customer wants
10. Selling too cheaply rather than focusing on the creation of value at higher margins
11. Trying to sell everyone and not developing a niche
12. Failing to plan
13. Failing to optimize efficiencies
14. Underestimating the importance of a sale
15. To stop marketing when business gets slow
16. Not having a clear vision or losing focus of the vision
17. Not seeking out mentors
18. Poor inventory and accounts receivable management
19. Poor supplier relationships
20. Hiring the wrong people and being a pal to the employees rather than a leader
21. Setting near-term sights too high
22. Underestimating the time commitment and family needs
23. Not being committed to the long-term and giving up when nothing happens

About the Supplement: An Opportunity to Learn

I encourage you to read the case studies supplemental to this e-book. The supplement contains several interviews with business owners who have all experienced the disappointments and struggles of developing a successful business model before realizing success. You will find it an invaluable learning experience to read their stories.

Win at Biz Checklist

✔ Is your product a high-priority item that is needed by your target market?	☐ Yes	☐ No
✔ Is your product easy to understand and sell?	☐ Yes	☐ No
✔ Do you understand the strengths of the strategic position of your competition?	☐ Yes	☐ No
✔ Have you developed real product benefits that differentiate your strategic position?	☐ Yes	☐ No
✔ Have you developed sales and delivery systems that differentiate your strategic position?	☐ Yes	☐ No
✔ Have you developed unique touch points that differentiate your strategic position?	☐ Yes	☐ No
✔ Do you really know the benefits that your customers desire? Have you asked them?	☐ Yes	☐ No
✔ Do you successfully satisfy your customers' emotional needs?	☐ Yes	☐ No
✔ Do you successfully eliminate frustrations associated with purchasing and using the product?	☐ Yes	☐ No
✔ Do you understand where price point acceptance, maximum revenue generation, and profitability coincide?	☐ Yes	☐ No
✔ Do you understand the number of unit sales that will be required (at market-acceptable price points) to generate the amount of revenue desired?	☐ Yes	☐ No
✔ Do you really know if there is enough room in the market place to achieve the required number of unit sales?	☐ Yes	☐ No
✔ Do your products need to be purchased over and over again, creating a renewable revenue stream?	☐ Yes	☐ No
✔ Do you offer a broad enough product range to generate cross-selling and up-selling?	☐ Yes	☐ No
✔ Can you easily identify and reach a potential prospect who has a need for your product?	☐ Yes	☐ No
✔ Can you cost effectively develop a product and procure a sale relative to your selling price?	☐ Yes	☐ No
✔ Do you offer convenient purchasing options relative to your competition?	☐ Yes	☐ No
✔ Do you convey the key benefit of your strategic position in a concise marketing message?	☐ Yes	☐ No
✔ Have you been effective at structuring as many of your costs as variable expenses (incurred from revenue) rather than as fixed costs?	☐ Yes	☐ No

Win at Biz Checklist

✓ Have you been successful at mitigating risk relative to your capital investments?	☐ Yes	☐ No
✓ Have you worked inside the industry to gain valuable, industry-specific knowledge?	☐ Yes	☐ No
✓ Have you consulted with other business experts to multiply your knowledge?	☐ Yes	☐ No
✓ Have you built solid supplier relationships?	☐ Yes	☐ No
✓ Do you have a strong passion to pursue this endeavor?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✓ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Develop Successful Marketing Strategies

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

DEVELOP SUCCESSFUL MARKETING STRATEGIES

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

DEVELOP SUCCESSFUL MARKETING STRATEGIES

Introduction

Almost all new businesses face the same problems: You think you have a great product or service, but nobody knows that you exist. You simply cannot find people to buy what you are selling. They do not understand or appreciate the value of what you offer. You spend a lot of money on advertising but get little response.

In order to survive and grow, every business has to attract new customers—and moreover, do it in an environment full of competitors. When a new business fails, the reason is usually that it failed to find new customers, build customer loyalty and repeat business, and create favorable word-of-mouth advertising.

Fifty years ago, when there was less of everything, it was easier to be noticed. There were three major television stations. In most communities there was one major radio station and one major newspaper that served the majority of the audience. There were fewer products and services and fewer niche markets, so consumers did not have so many choices when they wished to spend their discretionary dollars.

Today the consumer is knowledgeable, time-poor, inundated with an enormous selection of products and services, and flooded with advertising. Consumers get their information from a vast selection of sources: a plethora of cable television stations, numerous specialty radio stations, scores of newspapers and niche magazines. The sources for electronic research and marketing have multiplied, too; the average person receives hundreds of direct mail pieces and catalogs every week. Consumers can get their information in so many different ways that the market has become fragmented, and a business can no longer just advertise and hope to reach a mass audience. Furthermore, if you are in business today, you must compete against local specialty shops, national brand name operations, big box retailers, discount stores, factory direct stores, catalog distributors, and online stores.

As a result, the average small business has to target a very specific market—in other words, specialize—or else it will be invisible. In fact, many businesses, products, and services remain invisible because the consumer is overwhelmed with too much of everything: way too much advertising, too large a selection, and too little time. Consumers will not go out of their way to buy anything.

Blue Ocean Strategy, by W. Chan Kim and Renee Mauborgne, paints a picture of the fundamental marketing problems most business owners face today. Kim and Mauborgne label the arena in which most businesses compete as a "red ocean" rather than a blue one. Red oceans consist of an industry marketplace that is so crowded with competition that supply exceeds demand. The marketing strategies in a red ocean become so well-defined and accepted within a particular industry that the consumer becomes oblivious to them. The companies compete against one another inside this well-defined box where all the existing marketing strategies are accepted as the only route to profit. Companies perceive that their only option for growth in a red ocean is to beat the competition, using any means possible, in an attempt to capture a larger share of the market; however, since the consumers cannot distinguish any real difference between competitors' brands, the companies' products or services become commodities. As a result, the companies are forced to compete on price and lower margins to capture a larger market share, thus turning the competing waters red with blood.

Most companies operate in a crowded marketplace—in a red ocean. Some of them become successful by developing a marketing program focused around strong brand development that has differentiated itself by delivering exactly what the customer wants.

There is a better way. It is probably obvious by now: Get out of the red ocean. Stop competing within the confines of the well-defined and accepted marketing strategies. Instead, begin to develop ones for a blue ocean, where there lies untapped market space, where competition is irrelevant, where demand exceeds supply, and where profit margins are more generous.

Win at Biz Scorecard

- **Are you invisible in the marketplace?**
- **Is your business competing in a red ocean?**
- **Do you have a strategy in place for developing a strong brand that differentiates you from the competition?**
- **Are people talking about you?**

What Is Marketing?

Many businesses operate under the false impression that marketing is simply advertising to sell products or services. In reality, a successful marketing plan entails much more. Everything a company does is marketing. A comprehensive, strategic marketing plan is an investment in the company's future.

A good marketing plan comprises a host of fresh ideas and strategies that drive prospects to you, while delivering the right message to those prospects at every customer touch point. It will also satisfy both the customer's stated and unstated wants and needs. A truly effective marketing plan builds such a high level of value, trust, and loyalty with customers that it creates a shield to protect their customers from competitors. It differentiates the company to such a degree that it reduces competition as the company pursues untapped market space.

Common Marketing Mistakes

Don't break a cardinal rule of marketing, and dump money into advertising before you develop a strategically integrated marketing plan. Remember, your goal is an airtight plan for building brand loyalty. Business owners are often eager to see their business's name in lights, and skip or take shortcuts in order to get there. To avoid making this costly mistake, be aware of the following, common pitfalls.

- Not creating a written marketing plan with a budget.
- A weak marketing message.
- Infrequency, irregularity, and no commitment to long-term exposure.

- Marketing to too broad an audience.
- Poor timing.
- Lack of a motivational message that moves people to act.
- Homogenous marketing media within your marketing plan.
- A marketing message that focuses on the company rather than how it benefits the customer.
- Marketing strategies based on assumptions.
- Expecting too much, too soon.
- Changing your marketing plan frequently.
- Inconsistencies in the look, feel, and image of your various advertisements.
- Failing to test various offers and measure the results.
- Ignoring promotions that focus on repeat business.
- Ignoring promotions that focus on up-selling to customers.
- Investing in websites that do not move people to action.
- Wasting money on image advertising.
- Expecting word-of-mouth advertising to generate revenue.
- Expecting prospects to call you back or giving up after one follow-up call.
- Basing your advertising decisions on what is cheapest.

Develop a Strong Brand

Part of a strong marketing plan is a strong brand. And here's a word to the wise: An effective brand is more than a creative logo and slogan.

Branding a company entails creating an entire business identity. Your first thought as you develop your brand should not be your company's products, services, or capabilities. Believe it or not, facts about your company are unimportant. The reality of branding is *how the customer perceives you when they interact with your company*. The customer's perception may be positive, negative, or indifferent. The test of a successful brand is in what the customer is saying about your company to others. First and foremost, is your brand strong enough to get people talking about you? Next, are they saying what you want them to be saying?

The first step in developing a strong brand is to list the stated and unstated needs and wants of your target market.

Second, list every place a prospect and customer will touch your company.

Third, identify the training and systems that will need to be developed at every touch point to exceed the customers' identified needs and wants. As your company satisfies its customers' inner wishes in excess of their expectations—every time they touch the company—your customers will develop a trust in your brand.

Once you successfully determine what your target market really wants, the marketing strategies will follow. Aim for a broad range of strategies that differentiates your brand from the competition. The further you get from the competition, the more your brand will appeal to your market. If your marketing strategy succeeds, it will build a brand that people feel is the best in your industry. They will pay you what you ask, and competition will become less relevant.

To sum up, your marketing strategies should make good use of a strong brand, so that the resulting loyalty de-claws your competitors. Loyal customers who believe in your brand will not only be dedicated followers but also will talk about your brand to their friends.

Exercise: Key Questions for Key Answers

Any good marketing program is founded on the answers to some key questions. Those questions will help you identify the needs and wants of your target market, and also decide how to differentiate your company from the competition.

When you are going through the exercise below, remember not to attempt to be all things to all people. Keep a very narrow focus or you will risk being invisible in the marketplace. Also, be diligent and collect reliable information about what customers really want and need from a business in your industry.

1. What are your customers' pains and frustrations when they do business with companies in your industry?
2. Why are they attracted to your business rather than to a competitor?
3. What are your customers' unstated and emotional needs that must be satisfied?
4. What actions must take place to develop caring and trusting relationships with your customers?
5. How do your customers want to make a purchase and receive the product or service? How can you be more proactive, and provide solutions before customers realize there is even a problem?
6. How can you provide more face-to-face encounters and build stronger relationships?

Here is another good exercise. What happens when a customer compares you to the competition? Take a shopping trip to the competition and find out. Examine its customer touch points and brainstorm how you can look different. Examine your competitions' weaknesses and look for opportunities. Do not fall into the trap of focusing on you, your products and services, or the sale. Conduct your research as a *customer*. Remember, effective marketing strategies are all about the customer. Focus on what will spark interest, engage curiosity, and add to your company's image and reputation.

As you research your customers' wants and your competition's offerings, you may find it helpful to organize your questions and answers around the following three criteria.

1. Brand Identity
   - What are your product-related attributes or benefits that are better than the competition's?

- What are some organizational benefits that are better than the competition's? For instance, an organizational benefit could be a business process that is unique to your business model and helps differentiate your company from the competition. For example, customer service reps who have been trained with the appropriate knowledge to answer all customer questions without transferring the call to a supervisor; or follow-up quality control systems that exceed customer expectations. Strong organizational attributes will generally create more customer loyalty than product benefits.
- Can your brand identity be tied to a personality? For instance, using a local celebrity or any other unique personality as a spokesperson for your product, someone who can create a personality image that instantly connects to your brand.
- Can your brand identity be tied to a symbol (e.g., the Prudential rock)?

2. Core Identity
    - What core identity does the brand convey? In other words, what does the brand say about the company's fundamental beliefs and values? What does the company stand for in the marketplace? Core identity resists change over time.

3. Value Proposition
    - What are the functional benefits of the product that will stand out from the competition's?
    - When the consumer is purchasing or using the product, what emotional benefits can you satisfy better than the competition?
    - What are the self-expressive benefits of the brand? In other words, how does the brand become a way for a person to communicate his or her self-image?

Building Strong Brands, by David A. Aaker, is an excellent resource. The book offers several good formats for brand development.

Win at Biz Scorecard

- **Have you developed a written marketing strategy stating how you want customers to perceive your brand?**
- **Have you accurately determined the stated, unstated, and emotional needs and wants of your target market?**
- **Have you developed a list of the actions that will be necessary to achieve your branding goals in the minds of your customers?**

Develop Touch Points to Reinforce the Brand

As you develop strategies for fixing your brand in the minds of your customers, this path will invariably lead you to the subject of operating processes. In other words, you should now examine your training and other related processes—everything that touches your customers and guides the actions of your employees. Consider the experience of making an informational inquiry by telephone to a bank that hopes to brand itself as helpful, friendly, and efficient. As you are instructed to push number after number to speak with someone, you start losing patience with the annoying process. When you do finally get a real person on the line, you get transferred to yet another person, only to get their voicemail. Most of us would simply give up, frustrated with the company's inadequate operating process.

What type of branding message do these touch points convey?

Every time a customer interacts with your company, its touch points must reinforce the brand perception you hope to achieve. The experiences of your customer at every touch point must be pleasing and deliver the desired effect; however, they must also differentiate you from the competition, generating the word-of-mouth advertising that every successful company needs.

Chocolates on Your Pillow Aren't Enough, by Jonathan M. Tisch, stresses the importance of differentiating your company with remarkable customer experiences at every touch point. The author is in the hotel industry, which is like other industries where the marketplace is crowded with identical products or services. In such a competitive business environment, he makes the case for not placing your marketing emphasis on advertising the product or service, but instead differentiating yourself by putting all of your energy into the total customer experience. Customers remember pleasant experiences, and if they are *uniquely* pleasant experiences, they will talk about them to their friends.

In order to accomplish a memorable experience, every time and every place a customer interacts with your business, it must be a welcoming, friendly experience. Consistency is critical. When pleasing experiences occur frequently, the company will be successful at building brand value or equity.

Examine every place a customer touches your business and determine what the customer wants at every one of those touch points. Frustration at any single touch point will cause a customer to drop out. Examples of the many points where a prospect or customer can touch your business are

- the receptionist who answers your telephones,
- telephone conversations with a salesperson or customer service person,
- interactions with your website or an advertisement,
- a face-to-face sales encounter,
- the delivery of the product or service,
- the payment method,
- how a complaint is handled,
- the level of enjoyment in experiencing the product or service,
- a solicitation from a telemarketer,
- the appeal of your storefront,
- the presentation of your product in the showroom,
- your catalog,
- your trade show booth, or
- a follow-up phone call.

Every time your business touches a customer, it must deliver what he or she wants in a welcoming, remarkable way.

Never lose sight of what customers want. They want their lives to be easier; they want to save time; and anything that they take the time to touch, they want to run more efficiently. They want more affordability, and they want their experiences to be fun. They want more personalized service today than ever before; they want more information both about the product and the company; and they want easy access to good communication.

You are your company—and so are your employees. Touch point experiences are therefore their responsibility, too. Engage them in determining what your customers want and deciding what actions will satisfy those wants. Have them conduct surveys: How does the customer's actual brand perception differ from the one you want them to have? Develop training programs to educate new employees about what your brand is intended to look like to your customers, and what actions accomplish those goals.

As an exercise, ask your employees to write down a few sentences describing your brand. The answers may surprise you. It is imperative that everyone in the company is on the same page as your company's branding goals.

Win at Biz Scorecard

- **Do you really know what your customer wants at every touch point?**
- **Have you examined every point where a prospect or customer can touch your business?**
- **Do your touch points offer an extraordinary experience that differentiates you from the competition?**
- **Are the experiences unique enough to encourage customers to talk about your brand?**
- **Have you developed the training systems to educate employees about your brand, stressing the actions that will be required to build it?**

Differentiate Your Brand with Product Development

You can also differentiate your company by focusing on the product or service. Seth Godin, in his book, *The Purple Cow*, suggests that you will be invisible if your product or service does not target a small group of people that will be more likely to listen. Yet getting even a small group to listen to your advertising is difficult. As a result, you must invest your money in your product or service to make it so outstanding that people will talk about you and seek you out.

A remarkable product or service starts with your effort to first identify a market niche, and then create an extraordinary product or service that will meet its needs and solve its problems. Get inside your customers' heads. Make something they will love. Your customer's wants will probably take you down the most difficult path, but that will be the right path every time. As you develop your remarkable product or service, explore the outer boundaries and get as far away from the competition as possible.

For example, look at the Sleep Number Bed's business model that was established in the 1990s. During its startup phase, it entered the mature and competitive specialty bedding business. It approached the industry by building its business model around a highly differentiated product. That product was a mattress supported by air that could be set to a person's own personalized sleeping comfort. The name of the product, "Sleep

Number Bed," described both the product and the number one benefit. The name was also synonymous with the name of the store and the brand they hoped to build. The product was the business model, and because the product answered customers' wants so well, it differentiated itself in an overcrowded marketplace.

Another way to differentiate yourself is to educate your market, and make your customers' jobs easier. During the founding years of DecoPac, the founders published a catalog they branded "The Magic of Cakes®" to benefit their customers, retail bakers. The catalog helped the retail baker educate their customers about the numerous custom cake decoration options that were available. The point-of-sale catalog increased the sales of DecoPac's customers and differentiated DecoPac from their competition.

Finally, achieve uniqueness by targeting a narrow range of customers, and then making their purchasing experience easy. Consider Room and Board, a national furniture retailer specializing in contemporary furniture. In the 1990s, they produced a remarkable product by getting as far away from the competition as possible. In the crowded and competitive retail furniture marketplace, Room and Board found success by doing just the opposite of traditional furniture stores. Rather than offering all styles of furniture, Room and Board sold only contemporary furniture at a mid-range price point. Rather than offering a broad selection with as many SKU numbers as possible, they offered fewer SKU numbers. And rather than cramming their product into a display space to increase sales per square foot, they gave their room displays generous space.

These are all great examples of how success is achieved in the zone furthest from your competition, and how remarkable products beat them every time. To be successful long-term, never stop enhancing your product to better meet the needs and wants of your customer. Once you are remarkable, you have to stay that way in the eyes of your customers. Ralph Waldo Emerson said it best: "Do not go where the path may lead. Go instead where there is no path…and leave a trail."

Win at Biz Scorecard

Can you develop a product that is so remarkable that it will differentiate you from the competition in the customer's mind?

Differentiate Your Brand With Sales and Delivery Processes

Think for a second: How many times have you bought something from a particular vendor because the sales and delivery experience was easiest there? Michael Gerber, in his book, *E-Myth*, explains that if you are going to stand out from the competition and be talked about, you need to make your business model itself remarkable.

The business model is the operating process that determines how you are going to sell your product or service, and how it is going to be delivered. Obviously, your customers encounter many of these processes as touch points. Therefore, your processes must satisfy your market's wants better than the competition does. Also, the business model must alleviate frustrations and satisfy customers' emotional needs better, too. Each customer will perceive the value of your business model differently; however, if your business model separates you from the competition, you will be creating real value in many customers' minds.

To say it another way, what you are really selling is the uniqueness of your business model. (Refer to Book 4 of the Win at Biz series, *Develop Efficient Business Processes*, for more details on the importance of developing operating processes to run your business.)

Let's look at Room and Board again as an example. Due to their unique operating processes, they were able to maintain a 20 percent growth rate for several years in the mature, saturated, stagnant furniture industry. Traditional furniture retailers rely on local newspapers, radio stations, and television advertisements to draw prospective buyers into showrooms. In the late nineties, Room and Board developed an effective shop-at-home marketing system using a catalog and website that conveyed all the necessary product information with striking text and photography. The shop-at-home catalogs and website are supported by a toll-free number staffed with knowledgeable salespeople.

Room and Board also provides a feel and touch experience of its products in several welcoming showrooms around the United States. Orders for furniture are processed for immediate delivery anywhere in the United States, right to the customer's door, from a central warehouse location in Minnesota where quality control systems can be implemented. The marketing and delivery systems developed by Room and Board have created a national market from a limited number of showrooms. As a result, this successful retailer experienced the largest sales per square foot within the furniture industry for several years.

Another example of marketing and delivery processes becoming a remarkable business model is a company named Tastefully Simple. This company sells gourmet foods through over 20,000 independent sales associates at home tasting parties. The independent sales associates carry the tasting samples plus a catalog to represent the entire product selection. The customer's purchases from the tasting party are shipped the next day from a central warehouse directly to the customer. This $100-million-plus company experienced growth rates of 60 percent annually for many years.

Yet another example is the Kindle e-reader. This technologically innovative product is renovating the sales and delivery processes of purchasing a book. The Kindle offers an instant selection, purchasing, and delivery of your book.

All of these companies have developed marketing and delivery processes that have created exceptional business models that separate them from the competition by reducing customer purchasing frustrations and satisfying customer wants. As you search for methods to differentiate your total marketing package from the competition, get as far away from the competition as possible. Your challenge and goal is to design a complete marketing package that will take your company out of the overcrowded competition found in a red ocean and into the profitability of a blue ocean.

Win at Biz Scorecard

What can you do to develop your sales and delivery processes into a unique business model that will stand out from the competition?

Your Success Lies in a Multi-Functional Marketing Plan

A multi-functional marketing plan relies not only rely on the effective implementation of a brand, product development, and business process innovations, but also needs to be effective with promotional marketing events. To be effective, your marketing plan will need to build repeat business from your customers, develop referral business, find new prospects, and develop new customers. When you consider the varying outcomes that will be required from your advertising campaign, you will need to use a variety of effective media. All of your advertising promotions will give you a better return on investment if your target market sees you as an authoritative leader.

Present Yourself as an Authoritative Leader

As a customer purchasing a new product or service for the first time, wouldn't you be more confident purchasing from an industry leader? You can do just that when every touch point establishes your company as such, thanks to smart marketing. You will receive a much higher dollar return on your advertising investment if you are perceived as an industry leader. When you are small and just starting out, it will help to examine every marketing event and create it to reflect your company as a professional leader.

Your print advertising must be the most professional and informative in your marketing area. Your website must contain the best content, images, and navigation. Links with trade publications and trade associations must all point to your company as the authoritative leader. Your company needs to be out in front of the community, leading the way in education about your product or service. Consider publishing educational articles on the Internet to establish yourself as an expert in your field. In other words, you must build yourself up to be the best. Likewise, your service vehicles must be noticed as the best, and your service- and salespeople must be the best educated.

You can enhance your leadership position still further by associating yourself with the power of a recognized brand name. Never underestimate the power of brand name awareness in developing a leadership position.

I challenge you to examine your marketing efforts. Every marketing touch point must establish you as an authoritative leader in your industry if you are going to become a leading company.

Win at Biz Scorecard

Do your marketing touch points establish your company image as an authoritative leader in your industry?

Earn Loyalty and Repeat Business

The number one goal of any company is to build loyal customers and repeat business out of your customer base. The more loyal your customer base, the more successful you will become. Who are your typical customers? What do they look like?

It can be helpful to build a word picture of your target customers. An example of a word picture may look like the following: Your typical customers are in their midforties, married with children. The household income is $75,000. They live in starter suburban homes valued at $250,000 and drive a Ford Taurus. They change workplaces and move an average of every five years. Their time is limited so they tend to shop close to home. They read very little but are active Internet users.

Once you have developed an accurate word picture of your typical customer, you are in a position to gear all of your branding and marketing plans around this portrait. Next, you fine-tune your training programs so that every employee knows how to deliver your branding goals at every employee touch point. Finally, you ensure that your marketing program satisfies your customer at every encounter—and then you arrive at customer loyalty. Loyal customers add value to the company in many ways; however, the most obvious is repeat business. When you consider the marketing costs to replace a lost customer, it becomes obvious that your most profitable sales are to your existing customers. Your customers are also your best source for up-selling additional or new products and services. In fact, a marketing strategy targeted at your customers on a regular basis will almost always deliver your most profitable return on each marketing dollar.

Consider statement stuffers, postcards, and courtesy telephone calls to stay in touch with your customers, introduce them to special offers and up-sell additional services. Newsletters are also a good way to stay in touch and add customer value with educational information as well as new product announcements. Websites, blogs, and other social media formats such as Twitter, Facebook and LinkedIn are also excellent avenues to exchange educational ideas and build customer loyalty. Remember, nothing will give you a bigger return on your advertising investment than the time you invest or the dollars you spend on promoting to your customers.

You can also increase the return on your marketing by becoming more involved with your customers. You must be nice to them, express an interest in their needs as customers and friends, know their names, and customize offerings to their needs. Customers remember personal attention. Nothing will be more effective at building loyalty and repeat business than letting customers know they are important and that you truly care about fulfilling their needs.

Win at Biz Scorecard

- **Have you built a word picture of your typical customer?**
- **Do you focus on the word picture of your typical customer when you are developing strategies for your branding, marketing and employee training? Building loyal customers and marketing them will yield the best return on your advertising investment.**

Earn Referrals

Keep in mind the single biggest reason today that a person buys from you, and not from the competition, is a referral from a friend. They want to know in advance that they can have an enjoyable experience with your business. In order for you to be successful, your marketing has to come full circle and culminate in a successful referral business.

A successful marketing program begins with the strategies for developing a strong brand that separates you from the competition, as we discussed before. At the same time, it should also generate leads. One way to do that is to build loyalty and trust every time a prospect or customer interacts with your company. Word-of-mouth advertising will follow, and your marketing program will have come full-circle.

Every successful marketing plan also encourages customers to refer friends and neighbors to your business. Referral marketing is one of the most cost-effective ways to add new customers, increase revenue, and build your customer base. Most often a referred customer is your easiest sale because they have been pre-sold.

Consider these guidelines as you build your referral marketing program.

1. Identify your most satisfied customers to ask for referrals.
2. Contemplate the best time to ask for a referral. It may be more beneficial to let the customer experience your product or service before asking for a referral.
3. Customers will be more willing to give referrals as a favor when you have willingly given some extra service to them at no charge.
4. Provide some type of special reward for referring a customer. Promote the incentives on your website, statement stuffers, or other appropriate advertising.
5. Send a personalized thank-you letter to each customer who gives you a referral.
6. Establish incentives to gather testimonials from customers on a submission page within your website. After approving the testimonials you will showcase, give your customers access to them to share with friends. Your customers can use these testimonials as tools to sell your company to their friends.

Win at Biz Scorecard

Every successful marketing plan must include a strategy for encouraging customers to talk about you to their friends. Does your marketing plan include incentives for your customers to refer friends and neighbors?

Earn New Prospects and New Customers

Don't fool yourself; a company will not survive long-term without a marketing program that is consistently developing prospects. One of the best books on this subject is *Guerrilla Marketing*, by Jay Conrad Levinson. He explains the importance of developing an annual marketing plan and committing to that plan for the long-term.

You can never stop marketing for new business because

- the market is constantly changing with new people moving in and out,
- people forget about you if you do not continually keep your name in front of them,
- your competition will not quit marketing, so if you quit, the competition will capture your share of the market,
- to survive you must to keep finding new customers to grow and replace lost customers,

- it gives you an advantage over your competitors who do no marketing, and
- if you start and then stop, you lose the investment and benefits of all your past marketing expenditures.

In order for your marketing plan to keep generating new prospects, you not only must commit to marketing as a vital component of your business, but also you also must be patient. There is a big difference in the psychology of treating marketing as an investment versus treating it as a mere expense. One advertisement costs money, but a commitment to a marketing plan is an investment in the company.

Bear in mind, too, that most marketing efforts do not produce instant results. In order for a marketing plan to be successful at developing prospects, you must deliver a consistent message, consistently. As customers grow more familiar with it over time, they grow more likely to trust you with their business. Don't get discouraged!

Finally, just as placing one advertisement is not an effective marketing plan, utilizing only one medium or one strategy is not an effective marketing plan, either. To attract customers, use a combination of different media and strategies. Remember, success lies in a *multi-functional* marketing plan.

How to Aim for Your Target Market

In general, non-targeted, blanket advertising to a mass audience will give you the lowest return on your advertising dollar. It will be important to market to a narrow target audience who wants and needs your product. Your most cost-effective approach will always be to develop a credible target list for which to direct market to; so, to lower your marketing costs per sale for a continuous stream of new prospects, start by profiling your typical customer with a word picture. Next, search for a prospect list that matches your profile. A direct marketing approach will include

- door-to-door or face-to-face encounters,
- direct telemarketing,
- personalized letters accompanied by phone follow-up, or
- direct mail that includes limited-time offers.

Any offer you make should include a variety of inquiry options, such as a return card, website address, or telephone inquiry number. Any marketing event that puts you in direct contact with your target audience, such as tradeshows, community events or associations, conducting seminars, speaking engagements, or online social networking will pay huge dividends, too. We'll discuss advertising at the end of this e-book.

Don't forget about your salespeople. Being successful at obtaining prospects is just the first step. Your investment in planning and marketing expenditures will all be for naught if you do not have the right people and efficient business processes in place to turn the prospects into sales. Read more about how to build a successful sales team in Book 8 of the Win at Biz series, *Build a Successful Sales Organization*.

Make it Easy for Your Target Market to become Customers

How many times have you delayed a purchase because you couldn't access information easily, or else the purchasing process was inconvenient? Every marketing medium you use must offer easy access to information and multiple purchasing options. One size does not fit all.

A multi-functional marketing plan must include many touch points that keep a free and easy flow of information. Add punch to your marketing by making it convenient—customers don't want to struggle for service or product information, and especially not when placing orders. How many touch points can you develop that will both transfer product information and close sales? Examine the effectiveness and convenience of transferring product information and closing sales on a website, over the telephone, by e-mail, through a catalog, or by a direct sales visit to the home or business

Win at Biz Scorecard

You must make it easier to buy from you than it is from your competition.

Converting Prospects to Sales

When was the last time you investigated your competition's sales methods? After you develop a prospect, how efficient are you at turning leads into sales?

Creating successful advertising to develop prospects is just one step in a successful marketing plan—and one we'll cover in the next section. Suffice to say here, in order for any advertising dollar to yield a return, you must develop efficient processes to convert prospects into sales.

- First, identify all the steps involved in turning a prospect into a sale. Make a list of every touch point.
- Examine each step relative to your competition and your customers' wants. As you perform each step, are you confident that you outperform the competition? Identify what you can do to improve each step.
- Do you impress; do you blow your customers off their feet?
- Does the first impression wow them?
- The flow of information must be easy to understand, useful and immediately available.
- Any print literature must be more professional and informative than your competitors'.
- Salespeople and customer service people must be well trained, knowledgeable, capable of solving problems, and well informed.
- The sales processes must include efficient follow-up actions to successfully convert prospects into sales.

Your multi-functional marketing plan will have come full-circle when you are successfully developing a steady flow of new customers, growing your revenue from a loyal customer base, and financially benefiting from vibrant word-of-mouth advertising.

Put It Together: How to Write a Marketing Plan

No matter whether your business is new or twenty years old, it is imperative for you to develop an effective and profitable marketing plan on an annual basis. In order to develop a well-thought-out plan that is going to guide the company's growth, it must be in writing. As they say, if it is not in writing, it is not a plan. As you develop your annual plan, collect ideas from your key employees to engage everyone in the growth process.

Each year, identify or refine your target audience, the various marketing media you will use to reach it, the frequency of each marketing event, and what your cost is, expressed in terms of percentage of sales. Include all your other marketing strategies in the plan, as well—your branding statement or marketing message, a list of the real wants and needs of your target market, actions that must take place at every touch point to successfully build your brand, any marketing strategies that will lower costs and create more value, and strategies that distance your product, sales, and delivery processes from the competition. This must all be in writing or you do not have an annual plan.

Given the logic and importance of a written marketing plan, it is hard to fathom the number of businesses that lack one. Think about it! The marketing plan predicts the success of the business plan and bottom line. How many accountants would manage the financial statements and financial planning without writing anything down? It only makes sense to also put your marketing plan in writing.

Once you have an annual written plan, you must commit to it. Remember, frequency and consistency breed success. Measuring results, experimenting, and adjusting the annual plan will make your marketing plan pay off.

Think of every part of your marketing plan as an ongoing experiment. Like any scientist experimenting in a lab, you need to constantly measure your results. If you do not measure results, you could be wasting time and money on media that are poor performers. To maximize your return, monitor every medium and strategy so that you can kick out the poor performers and double up on the good performers. For instance, if you see that incentives pay off, make an effort to include one in every advertisement. For example, "Mention this ad and receive a _____ absolutely free." Remember, your annual marketing plan is dynamic and must be refined continually in order to maximize the return on your investment.

Now, let's translate this scientific thoroughness into action. First, consider everything that touches a prospect when you are developing your marketing plan. For example, the signage and cleanliness of your trucks have marketing impact. How your phone is answered, the appearance of your employees, the design of your invoice, the ease of interacting on your website, and how you handle a return or credit all have an effect. The more obvious marketing touch points are the face-to-face or telephone sales presentations, the performance of the service, the installation of the purchased product, the quality control, and the follow-up after the sale is completed. All of these marketing efforts need to be measured for their effectiveness. Remember, if you cannot measure it, you cannot manage it!

Decide which media and strategies develop the most prospects, and which ones build loyalty and additional revenue from existing customers. Again, Jay Conrad Levinson's book, *Guerrilla Marketing*, is helpful: It discusses a variety of media ideas and marketing methods. As you review these different ideas you will notice that they all have different strengths.

Sometimes it helps to think in terms of whether the marketing method lends itself to passive or active marketing. *Passive marketing* is your typical paid print, television, and radio messages. *Active marketing* is any marketing method that puts you into an active, relationship-building role. Trade shows, seminars, charity events, networking with trade association members, telephone conversations, and face-to-face meetings are all examples of opportunities to become an active marketer and increase your marketing return. Active marketing efforts will usually outperform passive marketing efforts.

Whenever possible, attempt to combine an active marketing event with a passive marketing media. For example, utilize television to generate prospects and follow up with an active in-home sales presentation.

Sample Marketing Plan

	Event/Medium	Frequency	Cost Each	Annual Cost
Developing New Prospects	Marketing Lists	1	$1,000	$1,000
	Direct Telemarketing	1 Person	15 Hours/Week $12/Hour	$9,000
	Salesperson	1 Full Time Salesperson	$30,000	$30,000
	Direct Mail	2 Rounds	$10,000	$20,000
	Sales Literature, Brochures	1 Piece	$1,000	$1,000
	Door Hangers	1 Round	$3,000	$3,000
Improving Sales Procedures	Analyze customer wants & objections. Develop branding language to sell benefits & satisfy objections.		$0	$0
	Conduct role play training		$0	$0
	Establish a software tracking system for follow up.		$0	$0
Building Referral Business	Upgrade website to develop testimonials	1 Project	$250	$250
	Invoice stuffer - reward program	6 Times per Year	$350	$350
	Upgrade website offer - reward program	1 Project	$350	$350
Building Repeat Business	Postcard to customers	Monthly (12)	$2,500	$30,000
	Customer phone marketing	1 Person	15 Hours/Week $12/Hour	$9000
Up-Selling to Customers	Invoice stuffer	Monthly (12)	$350	$4,200
	Upgrade website promotions	1 Project	$450	$450
			Total Annual Cost	$110,350

How to Advertise

By the time you get to this point in your decision-making process, you have probably already made the critical decisions about what your customers want and how you want your brand to be perceived. As you put the finishing touches on your marketing plan, you need to figure out the best advertising media to communicate your brand and successfully generate revenue from both new and existing customers. The following highlight the benefits of a variety of media choices to help you find the best fit for your marketing objectives.

Websites

An Internet presence is one of your best media marketing values, and possibly your most effective marketing revenue producer. A website has several advantages over traditional media. First, it is more convenient. Customers and prospects can get on your website from any location at any time of the day. Second, they can spend as much time on your site as they choose. Third, you can present an unlimited amount of product or service information with as much detail and photography as necessary. Fourth, websites offer interactive capabilities that are not available in any other types of media. Be sure to take advantage of this interactive capability by asking your users for ideas, feedback, and questions.

When you design your site, do not think of it as an advertisement. It is a shopping experience. It interacts with the customer and allows them to shop for as long as they wish. Some of the more important points to designing an effective website include

- a pleasing and attractive design with good graphics,
- detailed content,
- as much interactive capability as possible both within the site and with the company,
- a simple and clear format that allows a visitor to find what they want quickly,
- easy navigation from topic to topic within the site,
- as much personalization as possible, and
- easy procurement capability.

The website must offer a clear and efficient way to procure an order. To get the maximum benefit out of your website, your customer service people must offer a quick response to prospect and customer requests from your site.

You also must promote your website. Good interactive websites have tremendous potential to generate revenue if your target market knows that your site exists. Promoting your site in your other marketing strategies is a good place to start.

It is also important that prospects can find your site through search engines. In order to benefit from a search engine you may want to experiment with investing marketing dollars on a pay-per-click basis. The more you invest, the higher up on the list your site will appear. You also need to invest time researching keywords, incorporating the keywords into your site, developing rich content to publish on your site weekly, and getting as many companies linked and pointing to your site as possible. The goal is to establish your company’s website as an authoritative site in your industry. Search engines must be able to recognize you as a leader, and in turn will place your company on the top of the organic search lists.

Also consider links to your trade association websites so that product searches on those sites can lead prospects to your website. It can also be beneficial to participate in open forums on any industry websites that offer a free exchange of ideas among your potential customers. By adding threads to these open forums you can drive traffic to your site.

Writing educational articles and submitting them to opt-in e-zines is also an effective way to increase traffic to your site. Remember individuals search for free educational information so the more free, quality content you offer, the more value you add to your site.

Social networking is also an effective traffic generator. Consider learning how to utilize blogs, Twitter, Facebook, and LinkedIn. You may want to consider soliciting advice from a search engine optimization (SEO) specialist to help you improve your company's search engine recognition.

Canvassing

At the other end of the marketing spectrum, going door-to-door can also be extremely effective. If your product or service can be sold more effectively with face-to-face contact, this marketing method offers the advantage of targeting a very specific audience. The disadvantage is that it takes a lot of time for one person to reach a large quantity of prospects. To be effective for a larger company, you will need to get many people involved in the canvassing campaign.

First, make sure to check with the city hall of the community you intend to canvass to see if they require a permit for canvassing. Some tips for success include presenting a neat, clean appearance, dressing as the prospects dress, and smiling as you announce your name and your company's name. Time is of the essence, so you will want to qualify your prospect right away with a single question. For example, if you are selling a window-washing service, you may want to ask the prospect if they currently use a professional window-washing company. If they answer yes, you can quickly ask a follow-up question, "Are you happy with your present service?" Ask another question to confirm you are talking to the decision-maker.

Whenever you mention a feature of your product, also mention the benefit. For example, if you are selling new windows, the benefits to the customer are the reduction in heat loss and the increase in the market value to the property. The features would be screens that have 50 percent more see-through clarity or high performance glass that reduces sound penetration. If you are selling new hard cover window treatments, the benefits are privacy and control of damaging sunlight to the furniture and fabrics. The features are cordless or top down, bottom up options that allow either the top half or the bottom half of the window to be covered. Remember, the benefits sell the product or service—not the features. The consumer only wants to know what the product will do for him or her.

Be sure to engage the prospects in conversation and try to learn something about their needs so you can show them how your product or service can help. Use brochures as visual aids to enhance the presentation and to earn credibility. Do not give the prospect the brochure until you have closed or attempted to close the sale. Proudly point out the successes of your company and give customer references; perhaps you have customers that you can use for references on the same block you are canvassing. Close the sale by asking for a decision on a delivery date or payment method.

If you are canvassing on a larger scale, you may want to consider having a professional sales leader manage a group of door-knockers or lead developers. The sole purpose of the door-knockers is to develop leads for the sales leader and to leave informative door hangers for residents who don't answer the knock. The sales leader will be standing by to be personally called over to make the sales presentation.

The literature that you leave at the door for those not home may refer to the fact that you have an estimate for them and to expect a follow-up call. These "not at home" leads can be interfaced with your evening telemarketing program.

Personal Letters

The personal letter, when drafted properly, can be effective too. The more personal they are, the more of an effect they will have, so this marketing method is better suited to customers or prospects about whom you have personal information.

The letter needs to be about them and not you. For example, you could say, "I noticed how beautiful your home looks with the new exterior remodeling and painting. Would you like some ideas on how you can improve the looks of your retaining walls?" Remember to always state the benefits of your suggestions to the customer. An approach might be, "An updated retaining wall will complete your exterior remodeling and add to the value of your home both esthetically and financially."

Keep the letter short, clear, and error-free. Most people read the salutation first and the postscript second, so put your best benefit and a sense of urgency in the postscript. In fact, it adds a nice personal touch to hand-write the postscript.

Rather than requesting a response, simply inform the prospect that you will be following up. Just like every marketing strategy, it is the active marketing strategies that get the results. For example, to improve the effectiveness of personal letters, call your customer or prospect first, informing them about the special offers in the letter that will be mailed to them tomorrow. Or mail the letter with a personalized note attached, informing them that you will be calling. Then proceed to place a series of follow-up phone calls within a few days after they receive your letter.

Telemarketing

Since the mid-nineties, telemarketing to individuals and families has become more challenging. Therefore, telemarketing is a better choice for selling business-to-business. A phone call allows you to qualify your leads quickly and to verbally give more details about your product or service than other marketing media. Keep in mind that telemarketing can work well in conjunction with other marketing strategies, especially direct mail and canvassing where literature has been distributed.

Another advantage of telemarketing is your ability to target specific markets. Effective telemarketing campaigns use well-thought-out scripts that are practiced to sound natural. Telemarketers need to be trained to ask a lot of pointed questions to uncover needs and objections. They need to know how to answer the objection, confirm that the objection is solved in the prospect’s mind, and sell benefits. Then they need to know how to ask decision-making questions to close the sale.

Sales brochures are good marketing tools to mail out to qualified prospects that have not been closed. As always, testing and adjusting your sales presentation should be a never-ending process.

Sales Brochures

Brochures are marketing workhorses. They allow you to go into a lot of detail about your product or service and bring it to life with color photography. Sales brochures can be used effectively as visuals during a sales presentation; they can be used to build referral business by giving or mailing them to customers who have already purchased; and they can be given to qualified prospects who could not be closed, as a way to keep your message in front of them until the next follow-up call.

If you are mailing a brochure to someone, make sure you enclose a personal note on both the envelope and the brochure so it stands out from all the other direct mail they receive. Sales brochures can build credibility and confidence, helping to turn prospects into paying customers.

In developing a brochure, you first need to decide what you want the brochure to do. Do you want it to help close sales, generate referral business, drive prospects to your website, or to act as a silent salesperson? Remember that the advantage of a brochure is that it can be informative, so don’t be afraid to use a lot of good copy.

The first thing a prospect should see in the brochure is what you are offering. The offer needs to be stated in terms of what it is going to do for the prospect—in other words, the most important benefit. This message needs to be tied directly into a color photograph that supports the message. Remember, color sells, so always use color images.

The remainder of the brochure should list the additional benefits and give information that will create credibility and confidence. Be sure to tell your prospects exactly what type of action you want them to take.

Classifieds

Classifieds ads are not targeted to a specific audience; however, it puts your ad where people who are actively seeking your product or service can find it. As a result, it can be a powerful, cost-effective medium when it is generating results.

Do not forget to include the online classifieds. In some online formats you may need to place the ad daily to stay at the top of the listings.

To maximize its effectiveness, use a short headline in capital letters that captures attention. The content of the copy should follow directly from the headline. The copy should be written as if you are talking to one person and should be formatted in colloquial "people talk" versus the sometimes cryptic, abbreviated "want-ad talk." Remember to include the main benefits, yet keep the advertisement as short as possible. The ad should end with a motivation to buy.

The following is an example of a classified ad for a lawn maintenance company:

> ENJOY A BEAUTIFUL, MAINTENANCE-FREE LAWN
> Save time and treat yourself to a great-looking lawn. We have been planting and maintaining thick, weed-free lawns since 1985. We also mow, seed, aerate, and deep-root feed. So relax and enjoy your weekends. Call today for a free estimate and recommendations. 777-7777

Direct Mail

Direct mail allows you to target a specific audience and, like a brochure, go into great detail about your product or service. You can also use color photography to bring your offering to life. This medium can accomplish an array of sales goals—developing leads, driving prospects to your website, or generating immediate sales. Direct mail is also a great way to stay in touch with customers and create additional revenue.

Measuring results with this medium is easy, and so is getting feedback to make the piece more effective in the future. The disadvantage is the cost of the postage; however, as long as the response rate justifies the expense, postage is immaterial.

You can also consider direct mail packs. Direct mail packs are 25 to 50 postcards from individual advertisers, all bundled together into one promotional direct mail package. By sharing your delivery costs with multiple advertisers, you cut your postage costs significantly, but you will also give up the flexibility of mailing to smaller target audiences and pinpointing specific delivery dates, and you will be forced to print a much smaller mail piece to present your offer.

When developing a direct mail piece, the first decision you need to make is whether you will mail a letter in an envelope or as a flat mail piece. Advantages of a flat mail piece are that print production cost will be less than producing both promotional literature and envelopes, and the mail piece does not need to be opened to be seen. For the flat direct mail piece, consider using oversized mailers larger than 5.5 x 8.5 inches to capture attention. If you do use an envelope, make sure you use a brightly colored or an oversized envelope with a teaser printed on the outside that encourages the recipient to open it. Other points to keep in mind to maximize results are as follows:

- The headline should state the primary benefit.
- The graphics should support the headline.
- State all the additional benefits and offer solutions to problems.
- Use lots of "you" and "yours," highlight important statements in red and use the words *free* and *guarantee*.
- Use testimonials when appropriate.
- Repeat the offer on the reply card.
- Make it easy to reply and respond.

Newsletters

Regular newsletters are a great way to stay in touch with customers and to build loyalty. This is also a good medium in which to present new ideas and offer solutions to problems. Many times the topics discussed in a newsletter can end up generating additional revenue.

The newsletter should not resemble an advertisement. It should have newsy headlines with educational and informative content—not to mention attractive photography. Remember, because they are newsletters, they must be timely and relevant.

Newspapers

Ads in newspapers have a broad reach and are relatively affordable for the small business, especially in the zoned sections. Newspaper zones allow you to target a specific and smaller geographical area, which gives most small businesses an opportunity to achieve a better return on their advertising dollar. A good strategy is to watch what days and in which sections your competitors are advertising and jump in there with them.

Whatever you do, the same goal applies: Get a good return on your advertising dollar. The location of your advertisement on the page is important. A four-column, twelve-inch ad is the largest size available, and it will dominate the page. For smaller budgets, a two-column, four-inch ad will usually get stacked on top of larger advertisements and obtain a good location above the fold of the page.

Your graphic image is also important. Good art or photography will get you read. So will making sure your headline, image, and copy all support one another with a common message. Repeat your company name as many times as possible, always looking for ways to stand out from the other advertisements on the page. Color will work best if you can afford it; however, unique borders, reversed text in black ads, the use of gray tones or an unusually large amount of white space can also make your advertisement stand out.

As is true with all of your marketing materials, maintain a consistent appearance among your newspaper ads by using the same types of images and font. Furthermore, if newspaper is a medium that complements your marketing objectives, then be consistent in frequency: Your ad should run two to three times a month. Remember, consistency builds awareness and confidence.

And as always, remember to test. You can change the offer or coupon every time you advertise so you can effectively track the results. You cannot afford to spend money a second time on an advertisement that does not give you financial results.

Radio

Along with newspaper ads and direct mail, radio is another attractive mass medium for small businesses. It has the distinct advantage of voice, which allows the message to be more personal than other media.

If radio is your medium of choice, consider advertising on three to four radio stations. Study the audience of each carefully, seeking the best match with your target audience. You will also have to decide between what the *Guerrilla Marketing* book calls background stations versus foreground stations. The difference is background programming that plays music versus foreground programming that features conversational topics or talk radio. Talk radio programming will appeal to more active listeners.

To obtain the best return on your advertising dollar, do not accept the advertising rates on the rate card. The rates can usually be negotiated at lower prices. Also consider advertising three weeks out of four, concentrating your spots into two or three days of the week. This strategy will allow you to achieve maximum consistency for the least cost. Also consider running thirty-second spots versus sixty seconds.

Keep in mind you only have a few seconds at the beginning of your radio spot to capture the listener’s attention. Use background music to develop the types of feelings and emotions you want to convey that words cannot. Repeat your selling point and company name as many times as possible, using ear words versus eye words. As always, test often with special offers or a direct response telephone number. If you are not achieving the necessary results, change the copy immediately and keep testing until you have a proven winner.

Television

TV is one the most effective mass media, but also the most expensive if you hope to dominate the major network stations. It is more effective than other media because it can sell and demonstrate your benefits visually while enhancing the selling points with audio. Cable television now commands a larger audience than network television and is still growing.

Fortunately, with the introduction of cable in the 1990s, television ads are now more affordable for the average-sized business. The ability to zone your advertising to a specific geographical area reduces the cost. To negotiate the best price, use a media buying service. They will charge you a percentage-based fee; however, you will still save money off the rate card quote.

To select the most effective stations for your business, study the audiences of various ones. And as with radio, you only have a few seconds at the beginning of your advertisement to grab the viewer’s attention. An advertisement should work visually so it will be as “mute-proof” as possible. Design your advertisement to sell visually without the audio, and then add the audio later to support the visual element. Show the product or service in action as much as possible. It has been proven that retention increases when the viewer can see the product or service in use or the results in a before-and-after scenario. Repeat your main selling point three times, utilizing the media’s visual advantage to show your company name, location, phone number or website address several times.

Direct response television is ideal for products that adapt well to this type of sales format. Exercise equipment, cooking utensils, cosmetics, women’s clothing items, and CDs covering a variety of how-to subjects are a few products that are successful on direct TV. Typically, direct response advertisements will be two minutes in duration, requiring a credit card for instant payment. And you can measure the effectiveness of your advertisement immediately.

Another tip on measurement. Develop specific promotions with limited-time offers—they are one of the best ways to monitor the payoff of your advertisements. It is important to keep testing until you have developed winners.

Magazines

Magazine advertising has several advantages over other mass media advertising. First, it is an effective medium for color photography. Color pictures tell your story and build your image.

Second, because people buy magazines to spend time with them, they lend themselves to more detail and copy.

Third, you can create more credibility when advertising in magazines. Credibility creates confidence in your product, service, and company, which leads to more sales.

Fourth, you can target an audience to match your target market in specialty magazines more so than you can in a newspaper. For businesses with a limited budget, don't forget the classifieds in the back of the magazine. Classifieds can give great returns on your marketing investment. Remember, if you select this media, advertise regularly and test for financial results.

Some Additional Marketing Methods

- Stuffers to your customers that are delivered with your invoice to promote additional services or brand new services. Timely stuffers can generate additional revenue.
- Signs of all sizes: billboards, small outside signs, point-of-sale signs in retail stores, and signs on bulletin boards can generate revenue.
- Thank you cards
- Tradeshows
- Publicity announcements in your local newspaper
- Useful advertising specialty gifts (such as pens) imprinted with your company logo
- Sponsoring community events
- Donating charitable gifts to silent auctions in your company's name
- Advertising on service vehicles
- Advertising on uniforms
- Sales cards
- The yellow pages
- Advertising on shopping bags
- Window banners in retail stores
- Catalog advertising
- Seminars and demonstrations
- Speaking engagements
- Free sample program
- Trial offers
- Free online classified listings
- E-books

- Community activities, e.g., the Chamber of Commerce, charity boards, or a local Rotary club
- Gift certificates
- Hiring outside reps on straight commission
- Social networking—blogs, Twitter, article publishing

Tips for Creating Advertising that Sells

The following are some basic elements to include in the development of any advertisement.

1. The headline must attract attention and communicate the primary benefit of whatever you are selling. For example: “Crest White Strips for a brighter, whiter smile.” In a search for your main benefit, ask yourself what the product will do for your customer that the competition cannot. The best benefits motivate people to buy because they appeal to their emotions. Don’t confuse benefits with features. For example, a benefit of a skin lotion may be softer, younger looking skin while a feature may be a natural ingredient in the lotion.
2. The visual should support the claim made in the headline, illustrate the product in use, illustrate the end result of using the product or service. Before-and-after photos can also be effective.
3. If the design allows for a subheading, you can mention a secondary benefit or repeat the most important element of your copy. For example: “Hurry, reduced price for three days only.”
4. The copy is an important part of your sales message and deserves your attention. Typically an advertisement will require more effective copy when either the product is tougher to sell, you are facing more competition, or there is a desire to motivate a person to action.
    a. The leading copy needs to support the headline by emphasizing how the products benefits will satisfy an important need.
    b. You also need to support your claims with some type of proof. Consider using testimonials, credentials, endorsements or industry awards to back up your claims.
    c. The closing copy needs to offer incentives to move the reader to action. Consider special pricing, limited time period or limited quantity. Guarantees are also an effective way to reduce the consumer’s fear of making a purchasing mistake.
    d. Also consider using bulleting points to make the copy easier to read. Construct short sentences that are easy to read and include the word “you” often.
5. It is important that the design or overall look of the advertisement is attractive and easy for the eye to move through from the headline to the visual to the copy. When the visual supports the headline, you will want to spatially relate the two together. You will want to make sure there is enough white space in the ad so the eye can relax, easily moving through the advertisement without confusion.

6. As we have discussed earlier, it is important to clearly list in the advertisement several convenient avenues through which action can be taken, such as a return card on a direct mail piece, returning a coupon, referring action to your website, or a telephone number with convenient hours.
7. Always remember full process color will usually outsell black and white or a limited color promotional piece.

Win at Biz Checklist

✔ Have you successfully identified your target audience?	☐ Yes	☐ No
✔ Have you successfully identified what your customers really want?	☐ Yes	☐ No
✔ Have you completed a written, annual marketing plan? Does your marketing plan include identifying your brand and how you want to be perceived by your target market?	☐ Yes	☐ No
✔ Does your marketing plan identify the touch points and necessary employee actions to be successful at developing the desired brand perceptions?	☐ Yes	☐ No
✔ Does your marketing plan develop strategies to satisfy customer wants while simultaneously differentiating your company from the competition? Have you successfully matched the strengths of the various marketing medias and methods with your target audience?	☐ Yes	☐ No
✔ Does your marketing program offer consistency, both in frequent investments in advertising appearances as well as the image and message of the advertising?	☐ Yes	☐ No
✔ Do you have multi-functional marketing program that is consistent in developing prospects better than the competition?	☐ Yes	☐ No
✔ Do you make it convenient for your customers to get information and make purchases in a variety of ways?	☐ Yes	☐ No
✔ Does your marketing program offer personal attention to your customers to make them feel special? Is your brand strong enough to build customer loyalty that successfully protects you from competition?	☐ Yes	☐ No
✔ Are your marketing strategies successful at creating word-of-mouth advertising?	☐ Yes	☐ No
✔ Do you continue to market to your customers after the initial sale? Do you measure every marketing event for its financial return?	☐ Yes	☐ No
✔ Do you get your employees involved in brand development and brand training? Do you have marketing strategies that generate customer referrals?	☐ Yes	☐ No
✔ Does your marketing strategy and brand offer sales and delivery processes that satisfy customer wants better than the competition?	☐ Yes	☐ No
✔ Are you more efficient than your competition at converting prospects into sales?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Initiate Effective Financial Management Tools

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

INITIATE EFFECTIVE FINANCIAL MANAGEMENT TOOLS

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

INITIATE EFFECTIVE FINANCIAL MANAGEMENT TOOLS

Introduction

Imagine you are flying a plane in the dark without an instrument panel. As you zoom along at 550 miles per hour, all you can see is an endless night sky—and between you and the horizon, somewhere, is a mountain peak. You don't know when it will come; only that you need to change course before you hit it. Without an instrument panel, all you can do is cross your fingers and hope that you will see it in time.

That is what you are doing if you are operating a business without monthly financial statements. As foolish as that sounds, thousands of small business owners make business decisions every day based on the amount of cash they have in their checking account or the amount of credit open on their credit cards. And when an obstacle appears in their path, it's too late to divert course.

In order to successfully pilot your company to financial success, you need to understand how to make and read financial statements. Those numbers tell you every month how you have performed and how you are progressing, and they give you good information on which to base decisions.

In this e-book, you will acquire those skills. We'll start, though, with a standard disclaimer: If you do not understand financial statements or need help in establishing an accounting system for your company, it is important to seek help from a qualified accountant. There are also many helpful books in print that will aid in your education, as well as helpful online content that at www.Lowe.org. Some of the information in this chapter comes from business accounting bibles such as *Accounting for Dummies*, by John A. Tracy, and *The Successful Business Plan*, by Rhonda Abrams.

That said, you will find this e-book helpful. We begin by introducing the basic steps to a viable accounting plan for your business, and cover the steps you need to take to make a wise financial decision. The goal is for you to be able to keep track of your company's financial plan, find its leaks and cash cows, and set forth a strategy for growth. At the end of the e-book, you will find an exhibit of financial statements, a glossary, and a discussion of common financial ratios used as management tools.

Win at Biz Scorecard

Wait! If you are unfamiliar with the balance sheet, income, and cash flow accounting statements and functions mentioned above, STOP READING. Go to the appendix and review this information before continuing.

Accounting 101

A business is only as healthy as its financial performance. Tough, calculated business decisions have to be made everyday to guide the company to financial success. What would you do if you did not have the cash to pay your employees, suppliers, loan payments, or rent? How would you feel if you worked all year only to discover that at year's end, you lost money? Without adequate accounting information, how would you determine what went wrong or what needs to be corrected? Wouldn't it be better to avoid the catastrophe altogether with good planning and budgeting? Wouldn't it be better to have reliable information available daily (or at least weekly) so decisions could be made well before there is a serious financial problem?

In this section, you'll begin by creating and reviewing a financial statement. Short-term financial planning and the establishment of financial goals must be made using the numbers on this financial statement. Only then can you decide what actions are needed for your financial goals to be realized.

A word to the wise: Don't go into denial. Business owners who ignore their financial statements, hesitate to establish financial goals, or avoid corrective measures *will* go out of business. Accounting can be tedious, and by nature, it involves confronting uncomfortable truths. As the adage says, "Numbers don't lie." Your role as a company leader is to deal with financial problems right away. Dealing with them will be less painful in the short run than waiting until the problem creates a crisis.

Win at Biz Scorecard

- **Do you review accurate financial statements every month?**
- **Do you make decisions to improve the numbers?**
- **Do you put those decisions into action?**
- **Have you developed a board of advisors? Think of your financial statement as a report card that is grading you on both how well you are managing the business and how effective you are at beating the competition.**

Before You Start: Common Accounting Mistakes

- Not following formalized accounting procedures
- Not hiring a good accountant
- Not seeking professional accounting and financial advice
- Not balancing cash and making corrective entries on a monthly basis
- Not having an efficient filing system
- Not making use of accounting software programs
- Not backing up data from software programs
- Operating with a vague or no financial plan or budget
- Failing to budget for advertising to grow revenue
- Making no plan for profit projections or cash flow
- Forgetting to budget for taxes
- Assuming revenue growth will generate more cash
- Not managing the asset or liability accounts
- Not knowing or managing the breakeven point
- Not managing the gross profit margin

What's in a Financial Statement?

The three most important financial forms you will use will be the balance sheet, the income statement, and the cash flow statement. Most financial statements are kept to make tax preparation easier. Those general statements serve a function, but may not provide enough information to let you make day-to-day financial decisions. Instead, you may also want to consider using *internal statements* that provide you with a better financial picture of what drives your company's profit.

In Example 1 on page 8 you will see an example of an *internal profit report statement* that uses margins, fixed and variable expenses, and operating profits. This statement will give you a clear picture of your revenue-driven expenses. The term margin used in this financial statement refers to an amount equal to all variable costs deducted from sales revenue; variable costs include both the cost of goods sold and all other variable costs that are revenue-driven. For example, sales minus cost of goods sold equals gross profit margin. Gross profit margin minus variable expenses equals margin. An example of additional revenue-driven variable expenses could be delivery expenses and sales commissions.

Keep in mind that in a retail or distribution business, the cost of the finished product, or cost of goods sold, is the largest revenue-driven variable expense (i.e., the more you sell, the more you've spent to supply those goods). In a manufacturing business, the "cost of goods sold" expense number is a bit more complicated to compute. Typically the "cost of goods sold" expense consists of the cost of raw materials, the payroll for production related labor, and the variable and fixed production-related costs to manufacture the product. Variable production-related costs would be any expense that varies directly with the quantity of items manufactured. Fixed production related costs would include salaries for supervisory production employees, occupancy costs, and depreciation expense of the manufacturing equipment.

A service business, on the other hand, may develop a "cost of sales" expense (rather than "cost of goods sold") consisting of revenue-driven variable expenses that are necessary to deliver the service. For example, "cost of sales" in a lawn maintenance business would include expenses such as materials (fertilizer and herbicide), production related labor costs, fuel, and depreciation expense for the trucks and equipment. A service business such as an accounting firm or web design service whose product is solely comprised of people service (rather than a combination of products, equipment and labor) typically does not have a "cost of goods sold" category. In these types of service businesses, the labor is accounted for as an operating expense.

Remember, in an internal profit report, regardless of how you compute your gross profit margin, you must also deduct the additional variable expenses to compute your final margin. This statement gives you a clearer picture of how operating expenses behave relative to sales activity. Then deduct your fixed expenses from the margin. The resulting operating profit (which is different from net income) does not include interest expense from investments or taxes. *The sole purpose of the internal statement is to re-organize the numbers to help you analyze profitability.* In addition, this statement can be broken down further to express unit sales as well as various profit centers. Most businesses derive revenue from a variety of profit centers. For example, a distributor of appliances may generate revenue from a retail division selling directly to the public, a contractor division selling directly to home builders, and a service division offering a repair service to homeowners. The profit for each division can be analyzed by preparing an internal statement, as illustrated in Example 1, for each revenue source.

If you start keeping an internal profit statement, you can include whatever additional numbers will help you daily—and stay focused on what is really driving your company's operating profits. Think about what those numbers might be. For a manufacturing business, one may be the number of finished products coming off of the assembly line. For a retail business, possibly it is the daily sales, daily number of unit sales, average dollar amount of the daily sales, and the gross profit. For a service business, it could be the number of clients serviced by each vehicle per day. It may be the average number of days you need to collect on your accounts receivable, or the amount of cash you generate on a daily basis.

Whatever daily numbers you establish as a spot check of the financial health of your business, having these numbers as a daily reference will help you make adjustments more quickly as you move toward your financial goals. In Example 1, you'll see an example of such a statement. Don't worry about its content for right now—we'll explain it fully very soon.

Win at Biz Scorecard

- **Do you utilize internal statements that separate variable profit-driven expenses from fixed expenses to help you make financial decisions?**
- **Have you developed a daily matrix of numbers to spot-check your progress?**

Example 1: Internal Profit Report

Income Statement for Year end 12/31/2007

Sales Volume **110,000 units**

	Per Unit	Total	
Sales	$1,500	$2,000,000	
Less: Cost of goods sold	($900)	($1,200,000)	60%
Gross profit margin	$600	$800,000	40%
Less: Variable expenses	($187)	($250,000	12.5%
Margin	$413	$550,000	27.5%
Less: Fixed expenses	($337)	($450,000)	22.5%
Operating profits	$76	$100,000	5%

Income Statement for Year end 12/31/2008

Sales Volume **110,000 units**

	Per Unit	Total	
Sales	$1,545	$2,020,000	
Less: Cost of goods sold	($896)	($1,172,000)	58%
Gross profit margin	$649	$848,000	42%
Less: Variable expenses	($170)	($222,200	11%
Margin	$479	$625,800	31%
Less: Fixed expenses	($337)	($450,000)	22.3%
Operating profits	$142	$175,800	8.7%

Step 1: Establish Your Accounting Method

One of the first decisions you will need to make is whether to set up your books on an *accrual basis* or a *cash basis* method of accounting. If you decide to conduct your business on a cash basis, you will not enter your sales until you have been paid. In other words, if you make a sale in June for $1,000 but you do not receive payment until August, you will not enter the sale until August. Expenses are entered as they are paid. Cash basis accounting gives you a clear picture of the company's ability to meet its financial responsibility.

Accrual basis accounting enters the sale and the expense when the transaction takes place rather then when the cash changes hands. In the above example, the $1,000 sale made in June would be credited to sales in June and debited to accounts receivable while the debited expense is credited to accounts payable. Accrual basis accounting gives you an accurate picture of the performance of the income or loss activities and balance sheet accounts at any moment in time.

Step 2: Find Your Breakeven Point

A good place to start managing the financials of your business is with determining your *breakeven point*. Breakeven points will be expressed in terms of the revenue required to pay all of the fixed and revenue-driven expenses. Revenue-driven expenses are all costs of goods sold, as well as direct and variable expenses associated with making the sale.

Once you have determined all of your revenue-driven costs and fixed operating costs, you can determine your breakeven point in terms of required revenue, and analyze how changes in any of your categories (pricing, cost of goods sold, direct expenses, and fixed expenses) will affect your breakeven point and profitability. Let's look again at the profit report that we just saw a moment ago.

Internal Profit Report

Income Statement for Year end 12/31/2007

Sales Volume **110,000 units**

	Per Unit	Total	
Sales	$1,500	$2,000,000	
Less: Cost of goods sold	($900)	($1,200,000)	60%
Gross profit margin	$600	$800,000	40%
Less: Variable expenses	($187)	($250,000	12.5%
Margin	$413	$550,000	27.5%
Less: Fixed expenses	($337)	($450,000)	22.5%
Operating profits	$76	$100,000	5%

Income Statement for Year end 12/31/2008

Sales Volume **110,000 units**

	Per Unit	Total	
Sales	$1,545	$2,020,000	
Less: Cost of goods sold	($896)	($1,172,000)	58%
Gross profit margin	$649	$848,000	42%
Less: Variable expenses	($170)	($222,200	11%
Margin	$479	$625,800	31%
Less: Fixed expenses	($337)	($450,000)	22.3%
Operating profits	$142	$175,800	8.7%

For the year ending 2007, a company, "Gamma's," revenue (at specific selling prices) and the cost of the products sold yielded a 40 percent gross profit margin for the company. Gamma experienced direct expenses that ran 12.5 percent of sales. Fixed expenses were $450,000. So, what is Gamma's breakeven point?

Your answer is $1,636,363. Your formula for computing your breakeven point in this example is $450,000 (fixed expense) divided by 0.275 (100 minus the cost of goods sold percentage of sales (0.60) less the variable expense percentage of sales (0.125).

Once you know your breakeven point, you can calculate the sales required to break even, as well as see how small financial adjustments will raise or lower your breakeven point and operating profit. For example, if competition forces prices down, your gross profit margin will fall, and your breakeven point (i.e., the amount of revenue required) will rise. If the price of raw materials or vendor costs increase, your gross profit margins will decline and your breakeven point will increase. If some of the revenue-related direct costs increase, again the amount of revenue required to break even will increase. The same scenario is true if any of your fixed costs increase.

Any improvement in your breakeven point drops straight to the bottom line. So, you will want to focus on changes that will lower your breakeven point (and therefore increase your operating profit). To manage your operating profit effectively you must understand how the smallest of changes affect the breakeven point. For example, in Example 1 for the year ending 2008, you can see how very slight changes have increased the operating profit by $75,800. That is a 75 percent increase in 2008 operating profits compared to 2007, with no corresponding increase in the number of units sold. The increase was accomplished by raising prices by just 1 percent, lowering the cost of the products sold by a little over 2 percent, and decreasing the direct expenses from 12.5 to 11 percent of sales. Notice how the increase in the margin of $75,800 all drops directly to the bottom line.

You must know your costs like the back of your hand. If you do not keep current information about changes in your costs, you will not be able to manage your breakeven point and operating profits. For example, let's say your company, "Sigma," has unit sales of $1,000, a cost of goods sold of $600 (yielding a gross profit margin of $400 per unit). If the cost of the product goes up by $50, the gross profit margin will decrease from $400 (40 percent g.p.m.) to $350 (35 percent g.p.m.) and the operating profit will decrease by $50 per unit. You will have two options to restore the lost $50 in gross profit margin. You can leave prices the same and increase sales by 14 percent at the new 35 percent g.p.m. or you can raise prices by 5 percent. Both options, or any combination of increasing sales and a partial price increase, will restore the lost gross profit margin. In either case, you need to know right away how the rising costs affect Sigma's profitability, because the change eats into your daily profits.

Another way to manage your breakeven point and operating profits is to examine each unit sale, regardless of price, and determine how each unit sale drives the direct cost of each related expense. For example, for every unit sale, what is the unit cost incurred for the sales function? What is the unit delivery cost incurred? What is the unit advertising cost? Once you have determined all of your direct unit costs, you will be in a much better position to manage your breakeven point and operating profits. As you see increases in your direct unit costs, you can react more quickly by either increasing prices or unit sales.

You can carry out yet another management technique using fixed costs. For example, in the internal statement, Example 1, the revenue in 2007 was 4.444 times the fixed expenses. In order to maintain profit margins of $100,000, the company will need to maintain fixed expenses at a multiple of 4.444 to revenue. If fixed expenses increase to $500,000, then you will have to adjust either pricing or the number of unit sales to increase revenue to a multiple of 4.444 times the increased fixed expense number. In order to maintain the present breakeven point and operating profit, the multiplier of 4.444 must stay intact.

The important point is that you need to know your breakeven point and the costs associated with driving revenue, and develop internal statements to manage them.

Win at Biz Scorecard

- **Do you know what your breakeven point is?**
- **Do you continually search for ways to lower your breakeven point?**
- **Have you identified all of your costs that drive revenue?**

Setting Your Budgets and Targets

The actions that affect your financial statement are old news because financial statements tell you what has already happened. If you want to affect your future financial statements, you will have already implemented the advice in Step 2, and established internal statements (with the knowledge of your breakeven point) for the purpose of budgeting.

The next step—the act of developing formalized budgeting—will force you to analyze your past financial history, establish specific financial goals for the future, and develop detailed action plans for how to get there.

Every company needs financial goals and targets that are shared with everyone throughout the organization. You must determine where the company is going in terms of pricing, sales, expenses, your margins, operating profits, and cash flow. There are many reasons to budget; there are also many benefits to the company derived from budgeting. When you are developing your budgets, it can be prudent not to over-build for growth. Remember that it is usually more difficult to manage revenue growth than it is to control expenses. Consider the following:

- Developing *budgeted profit models* for the planning of operating activities provides an opportunity to plan for amount of profit you want to make. It will force you to make decisions about how to change the numbers and how you are going to get there.
- Developing a *budgeted balance sheet* shows the connections between your asset and liability accounts. You must demonstrate how decisions that have created changes in your profit model are going to affect the various accounts on your balance sheet. For example, will you need to keep more inventory or raw materials on hand, increasing the inventory balances? What will the effect be on accounts receivable balances? Will you need to replace or add any new equipment; if so, how will they affect your fixed asset account?
- Developing a *budgeted cash flow statement* will aid you in forecasting the company's cash flow needs to accommodate the changes in your profit model and the changes you forecast for your asset and liability accounts.

Budgeted goals can be broken down into monthly or quarterly targets, allowing management to react more quickly to the changing economic and competitive environment. Budgeting provides an opportunity to plan for sources of additional cash that may be needed, plan for the replacement or addition of new equipment, analyze the best way to maximize a return on assets and equity, review finance decisions regarding short- and long-term debt levels, owner disbursements, and investments. It also allows you to review inventory turnover ratios (and thus implement) controls to keep monthly inventory levels in line, review the average number of days you are carrying accounts receivable (and thus initiate controls to lower your carry time), and devote more time and thought to the entire process that will improve the accuracy of your forecasts. You will be able to develop financial targets against which manager and company performance can be measured, improve communication among departments, allowing an opportunity for everyone's ideas to be heard, and establish a format for motivating employees to achieve the budgeted targets.

All of the budgeted financial statements, the decisions that have been made to improve future performance, and the detailed plans of action that need to be implemented all need to be in writing. If it is not written, it is not a plan. Think of the budgeted financial models as blueprints for achieving operating profits, healthy financials (a.k.a., the balance sheet) and positive cash flow. Good financial planning must include all three statements. Many business owners stop short of looking at anything but than their income statement, failing to consider the effects on their assets, liabilities, and cash flow. Think of the budgeted models you build as a highway connecting the profit, financials, and cash flow. The financial details required for your internal budgeting statements are provided below in Examples 2 and 3.

Example 2: Budgeted Profit Report

Sales Volume	Actual for Year Just Ended		Budget for Coming Year	
Sales	$2,500,000		$2,800,000	
Less: Cost of goods sold	($1,500,000)	60%	($1,652,000)	59%
Gross profit margin	$1,000,000	40%	$1,148,000	41%
Less: Variable expenses	($250,000)	10%	($252,000)	9%
Margin	$750,000	30%	$896,000	32%
Less: Fixed expenses	($625,000)	25%	($600,000)	21%
Operating profits	$125,000	5%	$296,000	10.6%

Example 3: Budgeted Cash Flow Report for Coming Year

Budgeted Profit	$296,000
Accounts Receivable Change	($50,000)
Inventory Change	($18,000)
Prepaid Expense Change	$4,000
Depreciation Expense	($26,000)
Accounts Payable Change	($35,000)
Budgeted Cash Flow	$171,000

Planning to Achieve Your Budgeted Targets

During the planning stage of your budgeting process, you must entertain a host of variables that could affect your profit and cash flow. Remember that everything you do affects your financials. The efficiency of your business systems in satisfying and keeping customers, the effectiveness of your interviewing, hiring and training systems to develop a productive work force, the effectiveness of your marketing program, and the effectiveness of management all affect the numbers. Every action of every employee every day along with every business decision will determine the outcome of the numbers on your financial statements.

During the planning of your budget, examine all of the variables that impact revenue, margins, expenses and your corresponding asset and liability accounts; then implement action-oriented plans to get you there. In the next section of this e-book, we'll talk more about how to tweak each of these aspects to create a healthy financial forecast for your company.

Short-circuit Procrastination before It Happens

It is prudent to develop a board of advisors whom you trust and who have proven business backgrounds. Your board of advisors can become an invaluable asset in the area of quarterly financial reviews and on the establishment of financial goals. It becomes a lot more difficult to delay corrective financial actions or sweep inappropriate decisions under the rug when you know you are accountable to a board of financial review.

Consider utilizing students in graduate programs at some of the better-known business schools such as Yale, MIT, or Dartmouth. Many of these students are anxious for the opportunity to do financial analysis work for free as a class project just to get some real world business experience.

Use Your Budgets to Improve Revenue

In the following several sections, we will be covering some key considerations to include in any assessment of your financial health.

The first and easiest way to boost your bottom line is to boost your revenue. Specifically, improving the quality of your product or service, improving the effectiveness of your marketing program, or inventing more ways for your customer to interact with you can all generate more revenue.

Perhaps you need to improve or change your business processes to beat the competition in the way you develop leads. Focus on strengthening the perception of your brand—determine what your customer wants and train your employees to provide it at every customer touch point. Many times, if you get rid of purchasing frustrations and make your product or service easier to buy, you can sell more. By seeing the world through your customer's eyes, you can develop business processes to satisfy those wants better than the competition does. You'll create more remarkable experiences with your customers and, as a result, increase your word-of-mouth advertising. The goal is to improve brand loyalty and thus increase revenue.

Look at people-skills, too. Improving the professionalism and sales skills of your salespeople can boost revenue, too, by enabling them to close a higher percentage of sales. Improving the knowledge and skills of your customer service team will generate more satisfied customers and encourage repeat business.

Consider what you're selling and to whom. Maybe you can improve revenue by adding new products or services, expanding into new geographical markets, changing locations, or marketing to a new group of customers. Many times you can increase revenue by changing the inventory mix; you could improve the list of best sellers and move the slow sellers out. You might increase the dollar amount of your average sale by making changes to your sales system as well as your inventory mix.

Finally, examine your price points. Many times increasing price points may increase revenue—but possibly lowering prices may increase revenue, too. Merchandising your price points by lowering prices to increase demand on slow-moving products and increasing prices on your best moving products can both increase revenue.

In short, focus on all of the factors that can impact revenue; then take action to implement them.

Win at Biz Scorecard

How many creative ideas can you come up with to increase revenue?

Use Your Budgets to Improve Gross Profit Margins

The gross profit margin is affected by the selling price relative to the cost of the goods sold. The costs of goods sold could be the cost of the products you are selling, the manufacturing costs of the products you are building, or the variable costs related to the service you are providing.

1. The Lower-Costs Approach

To increase gross margins, look at ways to lower the costs that affect the product or service you are selling. If you are operating an inventory-related business, you can negotiate lower prices by purchasing in higher quantity or purchasing closeouts. Many times if you purchase under a private label, you do not disrupt distribution and can obtain better pricing. Consider buying your product at a different price point where there is not as much competition and the margins are more generous—you can often buy from different manufacturers or possibly overseas manufacturers where labor costs are lower, and you can generate a better value in the marketplace to create larger margins. You can also increase gross margins by lowering your freight costs. In fact, never stop looking for ways to reduce your freight costs.

In a service business, usually your service-related labor expense, costs for service-related materials, and gasoline (if you operate a fleet of service vehicles) will compose the majority of your variable costs. Efficiencies that lower these costs will increase gross margins. In order to lower costs on labor relative to revenue, you will need to focus on productive hiring and training procedures and creative, motivational financial incentives to increase the billable revenue per man-hour of labor costs. Strive to lower your service-related material costs and increase the efficient use of materials to reduce waste. If you are operating a fleet of service vehicles, develop routing efficiencies and GPS navigation to control and improve the efficient use of time and gasoline. Also, look at both your hiring and training systems to improve productivity of finished product per man-hour. Consider providing financial education and incentives that engage your production people to work for bottom-line results. Monitor the productive return of your equipment relative to the competition.

Finally, in a manufacturing business, look for ways to both drive the costs of your raw material lower than the competition's, as well as ways to improve the efficient use of raw materials to eliminate waste.

In any kind of business, study the efficient use of physical space to lower your occupancy costs.

2. The Raise-Prices Approach

On one hand, you can increase gross margins by implementing cost efficiencies and production incentives, but on the other hand you also have the option to increase prices to drive margins higher.

Obviously, raising prices will increase gross margins, but there is usually competition to consider. Many times the price sensitivity levels of your customer may be more of a limiting factor on price increases than your competition. Sometimes price increases will have a counter effect and decrease revenues due to decreased demand; however, many times prices and gross margins can be increased by raising the quality of the product or improving the way your systems sell and deliver the product relative to the competition.

Price can become secondary in importance, however, when the consumer is coming to you for better quality or reduced purchasing frustrations relative to the competition. In fact, many customers will willingly pay more for better service, a superior quality product, convenience, or even prestige. Differential pricing or varying the margins of different items based on the value or demand the consumer places on them will allow you to increase profit margins.

The biggest drag on many small businesses' gross margins is the dollars they give away through discounting prices when they sell the product. Teach your sales people to sell on the benefits, not on price. If you tend to discount prices to close sales: stop! Only give discounts to the five percent of your customers who try to negotiate and require a discount in order to close the sale.

Win at Biz Scorecard

Dollars generated from increased gross profit margins drop right down to the bottom line. Make a list today of all of the different ways you can improve this number!

Convert Fixed Costs to Variable Costs

The more expenses you can tie to revenue, the easier it will be to control your expenses and your bottom line. That is, it makes good business sense to turn as many of your expenses into direct, or "variable" costs (The terms are interchangeable, but we will use the term *variable* in this e-book.) Variable costs that are structured properly are revenue-generated expenses. Isn't it more beneficial to incur 50 cents of expense if it has generated one dollar of revenue, as opposed to a fixed expense that is incurred month after month without regard to how much (or little) revenue you earn?

The most common expense item that can be restructured from fixed to variable expenses is your sales expenses. Switching salespeople from salary to full or partial commissions is a great way to create revenue-producing incentives, thus moving a fixed expense to a variable expense. If you have salespeople who are receiving less than half of their income from commissions, consider changing how you compensate them.

In a service business, you might switch over as much of your production labor costs as possible from a fixed salary to a compensation program computed as a percentage of billable revenue produced or quantity of customers serviced.

In a manufacturing business, you may want to offer compensation incentives based on the number of widgets assembled. Substituting automatic salary increases or year-end gift bonuses with a reward-based bonus program directly related to revenue or bottom-line performance will divert money from fixed costs to variable expenses.

Marketing costs generally lead revenue, but must be controlled as a percentage to revenue and treated as a variable expense. It is a tremendous advantage when a business can truly treat its advertising costs as a variable, revenue-producing expense. It is critical to measure the results of various marketing methods. Tested, proven marketing strategies will enable you to develop a marketing plan that will generate a known dollar amount of revenue for every lead development dollar you spend.

Win at Biz Scorecard

Analyze your business and get creative. How many fixed expenses can you switch over to a percentage of revenue as variable expenses?

Reduce Fixed Expenses

When it comes to fixed costs you have to get tough and reduce costs wherever you can. That said, fixed expenses can be the most difficult to cut.

One of the masters at driving every penny out of fixed costs was John D. Rockefeller. In the book *Titan*, by Ron Chernow, we see the mind of a man who, by the age of 31, was the largest kerosene refiner in the world. During a routine inspection Rockefeller asked a welder, who was welding covers on the barrels of kerosene, have you ever tried putting fewer welds on the cover? The welder replied no. Rockefeller told him to experiment with the fewest number of welds that would seal the barrel. The result of the experiment was a reduction of three welds to the cover, standardizing the number of welds applied to every barrel and resulting in over $200,000 going to the bottom line. Ultimately, Rockefeller monopolized the kerosene refinery market by driving his costs so low that literally no one could compete with him.

You must be of the same mind. Be a tough negotiator. When you are negotiating new leases that affect occupancy costs, pay attention to your numbers. When hiring, do employ quality people, but pay attention to your breakeven number when establishing salaries, and insist that the employees earn their wage increases with bottom line performance. Don't give the farm away with employee benefits—they can add up in a hurry. Consider using temporary workers rather than full-time employees to handle peak periods of business. Research the benefits of outsourcing specific work functions that can be done more cost effectively by outside specialty companies. Investigate investments in new technology as yet another answer to reducing fixed expenses.

To manage an efficient bottom line company you must never stop working to lower your fixed expenses. Jack Stack, in his book *The Great Game of Business,* talks about the importance of becoming the lowest cost producer in any industry. Like Rockefeller, to survive long-term and operate profitably, you must beat the competition in delivering an unprecedented value to your customer. In order to do so, you have to develop a standard cost system for each of your departments based on your current profit and loss statement.

First, look at your current profit number and write down what it needs to be. Next, based on your current sales history, look at where your selling price points need to be relative to the competition and customer acceptance, and adjust your revenue number accordingly. Finally, discard your actual expenses and develop a standard cost system for each department based on where the numbers must be with the revenue and profit number you have just plugged in.

Tell your people that they must operate within these standard cost systems in order for the company to exist and provide jobs. This is managing by the numbers. It is tough, but leading a profitable business requires tough decisions and decisive action. Do not drag your feet in this critical area of financial management; the decisions and corrective actions will only get tougher the longer you wait.

Win at Biz Scorecard

- **Are you looking at your numbers and determining where costs need to be?**
- **Are you searching for creative ideas to lower your fixed costs?**
- **Are you making the tough decisions and putting those decisions into action?**

Improve Cash Flow

Remember, managing the operating profit on your income statement will not necessarily help your cash flow. To increase your cash flow, you must also improve the asset and liability accounts on your balance sheet. The balance sheet accounts are affected by the operating activities on your income statement.

For example, as sales increase on your income statement, your accounts receivable number may be increasing on your balance sheet. Even though increased revenue may be increasing your operating profit, *cash still may be decreasing* while accounts receivable are increasing. Be diligent in managing collections. See the section, "Know How Changing Your Operating Activities Affects Cash" for more detail. Suffice to say here, consider implementing the following changes to ensure that your increase not only your profits, but also your cash:

- Reduce your receivables to generate cash by accelerating payments from your customers from 30 days to 10 or 15 days.
- Step up the pressure to collect your past due receivables by calling them every 10 to 15 days and obtaining specific payment commitments.
- Hire a collection agency to collect accounts over 90 days past due.
- Tighten up your credit requirements to reduce future bad debt exposure.
- Increase the amount of payment due at the time of sale.
- Mail invoices the same day or next day to accelerate payment.
- Only accept your best accounts for credit and transact the rest on credit cards.

As sales increase, inventory will increase, thus diminishing cash flow. Reduce inventory by selling off slow movers—you'll turn dead inventory into cash. Work with your suppliers to accelerate the frequency of shipments, thereby reducing daily inventory levels and improve inventory turnover ratios. Better yet, search for suppliers who inventory and ship within 24 hours.

As sales increase, accounts payable will undoubtedly increase, too. Extending payment terms with suppliers from 30 days to 60 or even 90 days will improve cash flow.

Plan Investment Activities and Capital Expenditures

The budget planning process is a good time to plan your investments. Increasing accounts receivable, expanding inventories, and paying growing accounts payable on time will all create a need for more cash.

Meet with your lending institutions regarding your forecasted cash needs, using your budgeting statements as backup. It is also a good time to make decisions regarding investments of cash into the business by owners. Discussions may also take place regarding the use of surplus cash to pay down debt or make dividend distributions to owners.

You should also plan for your capital expenditures during the budgeting process, including the replacement of aging fixed assets. (Remember that the depreciation expense on your income statement is not an actual cash outlay.) Investments in new fixed assets will affect cash in the form of outright purchase, finance payments, or lease payments. Examine how these investments are going to generate a return and what the return will be relative to the cost of money; you might consider used equipment rather than purchasing new.

Win at Biz Scorecard

In order to increase cash you will need a budgeted financial plan that will affect your operating income, balance sheet accounts, investment, and financing decisions.

- **Do you have a budgeted plan for the future?**
- **Do you have a list of actions to implement to get you where you want to go?**

Managing Cash

Your income statement, the asset and liability accounts on your balance sheet, and the cash flow statement are all inter-related. You cannot increase cash flow without managing the operating activities from your income statement and the financial accounts of your balance sheet. Remember, the income statement does not tell you how much cash is coming into the business from sales or going out of the business from expenses. A bottom line profit from operating activities on your income statement does not mean the company is accumulating cash in the bank.

How to Get a Bank Involved

Cash can be affected by the decisions you make about your finance activities with lending institutions and owner investments or distributions. Your finance activities will affect cash whenever you are raising capital from debt or using cash to reduce existing debt. It is a good idea to establish credit as soon as possible with a lending institution to cover periods of time when the company experiences shortages in cash flow. Short-term demand notes, generally one year in duration, will allow you to draw against the note whenever you need cash to pay your bills on time. It is important to have a reliable source of cash so you can pay your suppliers on time, and take advantage of any discounts they might offer for prompt payments. During periods of positive cash flow, you can pay the demand note down.

To establish short-term demand notes with a lender will require a personal guarantee, a good personal credit history, a pledge of assets of the business as collateral for the loan, and good ratios on your balance sheet. Typically you must pledge your inventory and accounts receivable. A bank will generally loan up to 50 percent of inventory at cost and 75 percent of current (60 days or less) accounts receivable.

Many new business owners tend to ignore the ratios on their balance sheet. Don’t make the same mistake by falling asleep in this area of financial analysis. You can be assured that when you visit a lending institution for financing, the bank will scrutinize your financials. It will compare your current numbers to a trend of numbers of the same financial category from the previous five years. It will compare trends in expenses to see how successful you are at managing costs to maximize your bottom line. The same will be true for analyzing your success at managing costs that affect gross margins. Your banker will also analyze the five-year trends of asset and liability accounts on your balance sheet. For example, he or she will look at the number of days it takes to turn over your accounts receivable and inventory, how effective you are at maximizing cash, and how effective you are at managing your working capital to ensure that there is enough cash to cover accounts payable and short-term debt.

The banker will also look at the relationship of fixed assets to long-term debt. The ratios banks generally look at will be your current ratio, acid test (or quick ratio), debt-to-equity ratio, and working capital to sales. A cash flow statement will be compiled to determine both the company's net cash flow and how cash is being used and distributed. If you are a new business and the company cannot demonstrate a track record of successful financial management, do not be surprised when the lending institution asks you to pledge the equity you have in your home or other personal assets to secure the loan.

Once you are doing business with a lending institution, it is very important to keep the banker apprised of what is going on with changes in your business and changes with the numbers on your financial statements. Treat the bank as the partner it is in your business.

Win at Biz Scorecard

There is nothing more important than maintaining a solid reputation with your lending institution.

How to Pay Yourself

Owners can become either a source of cash or a use of cash. A common pitfall for small businesses owners is to take too much cash out of the business for their own personal consumption. When making these decisions, you will want to consider the financial strength, growth potential, and the effects on your balance sheet.

For example, company Beta has $500,000 in cash at the end of their fiscal year. The balance sheet shows $1,000,000 in debt and total equity of $200,000. If the owners decide to distribute the entire $500,000 in cash to themselves as dividend withdrawals, the debt to equity remains a terrible 5:1. On the other hand, if the owners distribute only $200,000 of the cash in dividends to themselves and retain $300,000 in retained earnings, the total equity will be increased to $500,000. The debt to equity ratio will be improved to an acceptable 2:1. Of course, another option would be to use all of the cash to reduce debt by $500,000, which would improve the debt to equity ratio to 2.5:1; additionally this will reduce interest expense and increase cash flow going forward.

When you are making decisions about dividend withdrawals, pay attention to the balance sheet ratios, pay yourself a reasonable salary (typically no more than 5 percent of revenue), and live within your financial means.

Win at Biz Scorecard

Do not be the financial ruin of your company! Make responsible decisions regarding utilizing cash to pay down debt and distributing owner dividends. Never take a larger personal salary than what the company can afford to pay.

How to Invest in Your Equipment

Many businesses need tangible assets such as trucks, manufacturing equipment, computers, and other long-lived equipment to operate their business. For example, how could a printing business produce a product without investing in printing equipment? Your capital expenditures—what you decide to spend money on—will reduce cash in the form of purchases, lease or financing payments. However, the act of acquiring long-term fixed debt for financing fixed assets will increase cash (to pay for the fixed asset.) You will also increase cash when you dispose of your used fixed assets.

Ratios can help you make decisions about how to choose and finance big purchases with new long-term fixed debt. For example, what is the current return company Alpha is receiving on net operating assets? If Alpha's income statement shows $50,000 in operating profit and you divide that by $1,000,000 in net operating assets (total assets less non-interest-bearing liabilities) you get a 5 percent return on net operating assets. Does it make sense to pay 7 percent for additional long-term debt to finance more equipment when the company is only getting a 5 percent return? On the other hand, the company could be attempting to improve the return by investing in replacement equipment that is more efficient and productive.

Whatever your strategy, you must pay attention to the effect your decisions will have on cash flow.

Win at Biz Scorecard

Before you invest in new equipment, figure out how the equipment is going to give you a return on your investment, how it will affect cash, and how it will affect operating income.

How Changing Your Operating Activities Affects Your Cash

Companies make decisions and take actions every day to improve their operating income on their income statement. But how do your day-to-day decisions affect cash balances?

To increase your operating income, you need to make changes that increase sales and reduce expenses relative to sales. As operating activities occur, any changes in your sales and various expense accounts will affect the asset and liability accounts on your balance sheet. Those changes on your balance sheet will determine your cash balance. The relationships are complex and nuanced, but have patience! Learn the basics here, and you will see how important this subject is for every business owner to absorb.

The following are some of the most common, cash-relevant relationships between operating activities that may affect your income statement and the various asset and liability accounts of your balance sheet.

The Relationship Between Sales, Accounts Receivable, and Cash

Many businesses extend credit to their customers when a sale is made. Rather than new sales increasing cash, they increase an asset account named *accounts receivable.* Accounts receivable on the balance sheet represents sales waiting to be converted to cash. Consider a company, “Kappa,” that increases sales from $2,000,000 to $2,700,000. The increase in sales can increase or decrease cash depending on what is happening with accounts receivable. Company Kappa saw their accounts receivable increase from $250,000 at the beginning of the year to $320,000 at year’s end. The $70,000 increase in accounts receivable will decrease Kappa’s cash by the same amount.

The Relationship Between Sales, Inventory, and Cash

Many businesses sell a product to generate sales. A business of this nature needs to have product on hand waiting to be sold. This product does not become a “cost of goods sold” expense until the product is actually sold. In the meantime, the product that has been purchased increases an account named “inventory.”

Inventory on the balance sheet represents an asset waiting to be converted to sales and ultimately to cash. Consider a company, “Gamma” who increased sales from $4,000,000 to $7,000,000. Gamma’s gross profit margin last year was 48 percent, which means their cost of goods sold was 52 percent. Gamma turns their inventory ten times per year, which means they needed to keep $208,000 of inventory on hand ($4,000,000 x 52 percent = $2,080,000 cost of goods sold divided by 10 = $208,000). This year Gamma sold $7,000,000 at a 50 percent gross profit margin with an inventory turnover ratio of 10. The increase in sales would require Gamma to keep $350,000 of inventory on hand. The $142,000 increase in inventory would reduce cash by the same amount.

The Relationship Between the Asset Account, Prepaid Expenses, and Cash

Many businesses will elect to prepay some expenses. For example, insurance is an expense that is often prepaid for a six or twelve month period. Many times a company does not want to expense the insurance all at once, but rather allocates the cost over a period of time and actually expenses the cost to the income statement during the month that it is benefiting the company. In such instances, when the insurance is paid for in advance, it will increase an asset account named *prepaid expenses* and reduce cash. Prepaid expenses on the balance sheet represent an asset waiting to be converted to an expense.

The Relationship Between Depreciation Expense, Fixed Assets, and Cash

Many businesses purchase fixed assets such as real estate, manufacturing equipment, trucks, and office equipment. At the time these fixed assets are purchased, cash is reduced or long-term debt is increased to finance the purchase. The main point to understand is that the fixed asset has a limited useful life and will eventually need to be replaced. In order to recover the cost of the fixed asset through sales, a portion of the asset’s original cost must be expensed every year to an expense account named “depreciation expense.” The depreciation expense account has no direct affect on cash flow; however, it does serve the purpose of reserving cash from revenue for replacement of the fixed asset when its useful life expires.

For example, a company, “Kappa,” purchases a fleet of delivery trucks for $250,000. For simplification, we will assume Kappa paid cash for the vehicles, thus increasing fixed assets by $250,000 and reducing cash by the same amount of $250,000. We will also assume a useful life of five years for the trucks. Each year, for five years, Kappa would expense $50,000 to the depreciation expense account. (Making an accounting entry to the depreciation expense account does not affect cash.) The offsetting $50,000 entry is posted every year to accumulated depreciation (i.e., credited to an asset account) which will write the value of the fixed asset down to zero in five years. In order for Kappa to show an operating profit, products must be priced high enough so that revenue covers the $50,000 in the depreciation expense account plus have enough left over for an operating profit. By making an accounting entry to the depreciation expense account every year and assuming the company is breaking even, Kappa will be accumulating $50,000 in cash each year for the replacement of the retired asset at the end of the five years. See the accounting entries below.

Example 4: Accounting Entries

Purchase of the Asset:

Credit to Cash... ($250,000)	Debit to Fixed Asset... $250,000

First Year Expense Entry:

Debit to Depreciation Expense... $50,000	Trucks... $250,000
	Credit to Accumulated Depreciation... ($50,000)
	Total Fixed Assets... $200,000

The Relationship Between Expenses Not Paid, Accounts Payable, and Cash

Most companies buy items and services on credit that are expenses to the company. When invoices are received for payment at some future date, they are entered to an expense account on your income statement that will accurately reflect the month the expense was incurred. And offsetting entry is entered to an account named "accounts payable."

This accounting entry has no effect on cash. When the invoice is actually paid, both cash and accounts payable are reduced. There may be additional accounts payable accounts for specific expenses not yet paid, too—some examples include sales tax payable, federal and state withholding taxes payable, and income taxes payable.

Statement of Change

Example 5 is a statement of change that illustrates the interrelationship of the operating activities, investing activities, and financing activities with the beginning and ending balances on the balance sheet. The entry "($000)" indicates credit accounts and credit entries.

Notice that even though operating activities increased cash by $55,000, cash decreased for the period due to investing decisions made to purchase fixed assets for $20,000, finance decisions made to reduce debt by $40,000, and dividends distributed to owners for $70,000.

Example 5: Statement of Change

Beginning	Operating Balances	Operating Activities	Financing Balances	Balances	Operating Activities
Cash	$250,000	$55,000	($20,000)	($110,000)	$175,000
Accounts Receivable	$450,000	($30,000)			$420,000
Inventory	$550,000	$50,000			$600,000
Pre-paid Expenses	$15,000	$4,000			$19,000
Fixed Assets (net)	$150,000	($35,000)	$20,000		$135,000
Total Assets	$1,475,000	$44,000		($110,000)	$1,409,000
Accounts Payable	($150,000)	($25,000)			($175,000)
Interest Bearing Debt	($400,000)			$40,000	($360,000)
Owner Invested Capital	($200,000)				($200,000)
Owner Dividends	$150,000			$70,000	$220,000
Retained Earnings	($875,000)	($19,000)			($894,000)
Total Liabilities & Equity	($1,475,000)	($44,000)		$110,000	($1,409,000)

Win at Biz Scorecard

To effectively manage your cash, you must manage the activities of both your income statement and your asset and liability accounts.

Periodic Health Assessments

In order to be successful at achieving your budgeted financial goals, it will be necessary to conduct periodic (weekly, monthly, and quarterly) financial health assessments. Think of your financial assessment as a diagnostic gap analysis where you measure the distance between your budgeted goals and the actual financial results. Look for early warning signs of problems in your cash flow, working capital, turnover of your inventory and accounts receivable, revenue, gross profit margins, and expenses. Create a daily matrix of numbers to spot-check your progress. Develop new action lists of corrective steps to close the gap between your current situation and your budgeted financial goals. To be successful at financial management requires constant re-assessment and corrective action.

Win at Biz Scorecard

Are you continually re-assessing the difference between your actual financial results and your budgeted goals?

Win at Biz Checklist

✔ Do you have accurately prepared income statement, balance sheet and cash flow statements prepared for your review every month?	☐ Yes	☐ No
✔ Do you develop internal profit reports to help you focus on your profit centers and what is driving profit?	☐ Yes	☐ No
✔ Have you developed internal budgets for your income statement and balance sheet accounts and forecast how those budget decisions affect cash flow?	☐ Yes	☐ No
✔ Have you developed a written plan of actions to get you from your current financials to where you want to go in your budgeted plans?	☐ Yes	☐ No
✔ Do you have a plan of actions to positively impact revenue?	☐ Yes	☐ No
✔ Do you have a plan of actions to lower your breakeven point?	☐ Yes	☐ No
✔ Do you have a plan of actions to reduce fixed costs?	☐ Yes	☐ No
✔ Do you have a plan of actions to improve your margins?	☐ Yes	☐ No
✔ Do you have a list of actions to improve the management of accounts receivable, inventory and accounts payable that will improve cash flow?	☐ Yes	☐ No
✔ Have you managed your cash for the replacement of fixed assets?	☐ Yes	☐ No
✔ Do you research the return on investment before making decisions on purchasing new fixed assets?	☐ Yes	☐ No
✔ Do you, as an owner, take reasonable annual salary relative to the profits generated, leaving an appropriate amount of annual profits in the company as retained earnings?	☐ Yes	☐ No
✔ Do you maintain an excellent working relationship with your bank?	☐ Yes	☐ No
✔ Do you keep them informed about changes in your operating financials and your budgeted plans?	☐ Yes	☐ No
✔ Do you conduct routine finanical health checks to monitor the difference between your budgeted goals and current results?	☐ Yes	☐ No
✔ Do you educate your employees regarding how their actions affect the numbers?	☐ Yes	☐ No
✔ Have you assembled a board of advisors with whom you may consult about your company's financials?	☐ Yes	☐ No

APPENDIX TO CHAPTER ONE

If you are unfamiliar with basic financial statements, we will start at the very beginning. The three most important financial forms you will use will be the balance sheet (Exhibit A) the income statement (Exhibit B) and the cash flow statement (Exhibits C and D). Common financial ratios also serve as valuable management tools and are reviewed here. You will find all financial exhibits in this appendix.

The Balance Sheet

The balance sheet in Exhibit A tells you what the company is worth on any given day by deducting all the liabilities from the total of all the assets. Frequently used financial terms in the balance sheet include the following.

Assets. Anything that the company owns that has monetary value.

Current Assets. Assets such as cash, accounts receivable, and inventory that can be converted to cash during the normal course of business.

Cash. Money that is immediately available.

Accounts Receivable. Monetary obligations due to the company.

Fixed Assets. Assets that cannot be quickly turned into cash. Fixed assets would include real estate and long-lived productive assets such as equipment.

Liabilities. Any debt obligations of the company.

Current Liabilities. Liabilities such as accounts payable, payroll taxes, and short-term bank notes that are due during the normal course of business within one year.

Accounts Payable. Outstanding invoices or bills due to others.

Long-term Liabilities. Longer term debt obligations such as real estate mortgages or financing on equipment or store fixtures that are due over a period of time longer than one year.

Equity. Represents the ownership of the company.

Total Equity. The net worth or value of the company after deducting the liabilities from the assets.

Exhibit A
Balance Sheet
December 31, 2008

Assets

Current Assets	
Cash	$100,000
Accounts Receivable	$200,000
Inventory	$500,000
Total Current Assets	$800,000
Fixed Assets	
Fixtures & Equipment	$300,000
Accumulated Depreciation	($100,000)
Total Fixed Assets	$200,000
Total Assets	1,000,0000

Liabilities & Equity

Current Liabilities	
Accounts Payable	$250,000
Demand Bank Note	$300,000
Federal Payroll Taxes	$26,000
State Payroll Taxes	$8,000
Sales Tax Payable	$15,000
Total Current Liabilities	$599,000
Long-Term Liabilities	
Bank Equipment Financing	$100,000
Total Long-Term Liabilities	$100,000
Total Liabilities	$699,000
Equity	
Issued Capital Stock	$1,000
Retained Earnings	$250,000
Profit or (loss) YTD	$50,000
Total Equity	$301,000
	$1,000,000

The Income Statement

The income statement (or the profit and loss statement) in Exhibit B tells you if the company is making a profit after all expenses are deducted. The income statement does not give you information about its cash position or the company's net worth. Frequently used financial terms in the income statement include the following.

Sales. The income (or sales) tells you what you have sold in product or services.

Cost of Goods Sold. The cost of goods sold reflects your cost of the product that has been sold plus any related freight costs.

Gross Profit. The gross profit is computed by subtracting cost of goods sold from income or sales. It is often referred to as the gross profit margin, which represents the percentage of profit from each sale before deducting operating expenses.

Operating Expenses. Operating expenses consist of both direct expenses (or variable expenses) and general and administrative expenses (or fixed expenses). Direct expenses are expenses that are incurred only when income is generated from sales; they are not incurred unless there is a sale. For example, if your salespeople are paid a straight commission on sales, your sales expense will always vary as a direct percentage to total sales. The higher the sales become, the higher the commission expense; conversely, the lower the sales become, the lower the commission expense. Direct expenses are easy to forecast because they will always be a specific percentage of sales.

General and Administrative Expenses (or Fixed Expenses). Expenses that are fixed and do not vary with the amount of sales. Examples of fixed expenses would be rent, utilities, insurance, and administrative salaries.

Net Profit. The net profit before taxes would be determined by subtracting the operating expenses, or both the direct expenses and the general and administrative expenses, from the gross profit.

Exhibit B

Income Statement

	December 31, 2008		December 31, 2007	
INCOME				
Sales	$1,000,000		$1,200,000	
Total Sales	$1,000,000		$1,200,000	
COST OF GOODS SOLD				
Cost of Goods Sold	$500,000	50%	$645,000	53.75%
Freight	$50,000	5%	$75,000	6.25%
Total Cost of Goods Sold	$550,000		$720,000	
GROSS PROFIT MARGIN	$450,000	45%	$480,000	40%
OPERATING EXPENSES				
Rent	$50,000	5%	$50,000	4.2%
Telephone	$3,000	0.3%	$2,500	0.21%
Electrical	$9,000	0.9%	$8,500	0.71%
Advertising	$50,000	5%	$55,000	4.58%
401K Expense	$6,000	0.6%	$7,000	0.6%
Health Insurance	$20,000	2%	$25,000	2.1%
Liability Insurance	$5,000	0.5%	$4,000	0.3%
Workman's Comp Insurance	$5,000	0.5%	$4,500	0.4%
Unemployment Taxes	$2,000	0.2%	$1,500	0.1%
Employer FICA	$14,000	1.4%	$15,000	1.2%
Office Payroll	$75,000	7.5%	$70,000	5.8%
Sales Payroll	$75,000	7.5%	$85,000	7.1%
Other Payroll	$50,000	5%	$55,000	4.6%
Legal & Accounting	$1,000	0.1%	$1,000	0.8%
Interest Expense	$30,000	3%	$27,000	2.3%
Supplies	$1,000	0.1%	$1,500	0.1%
Postage	$1,000	0.1%	$1,200	0.1%
Technical Support	$1,000	0.1%	$1,500	0.1%
Bank Fees	$1,000	0.1%	$1,200	0.1%
Total Operating Expenses	$400,000	40%	$416,400	34.7%
NET PROFIT	$50,000	5%	$63,600	5.3%

The Cash Flow Statements

The cash flow statements in Exhibits C and D tell you if the company has enough cash in the bank to pay the bills. This is a flow statement that paints you a picture of the money that is flowing into and out of the company. The balance sheet can tell you if you have less cash in the bank at the end of an accounting period but does not indicate how the money was used.

Your income statement will tell you if the operation of the business lost money, however, the income statement will not give you the details of cash flowing into and out of the company. Perhaps the company used cash to pay down debt or made a large investment in equipment; possibly sales on credit terms are increasing while accounts receivable collections are lagging, creating a decrease in cash.

You must manage both the profit and the financials of your balance sheet to manage cash flow; you cannot manage one and not the other. The cash flow statement is divided into three main categories using the financial terms below.

Cash Flows from Operating Activities. This section of the statement shows you sources of cash flow from the profit generating operations of the business only. Other sources of cash are excluded. The operating section of the cash flow statement can be reported in two methods.

The *direct method* of reporting operating activities illustrated in Exhibit C shows how the operating cash flows are directly related to sales and expenses.

Exhibit D focuses on showing how operating cash flows from sales and expenses have changed the connected asset and liability accounts. This reporting method is known as the *indirect method*. A company experiencing strong sales can experience an increase in accounts receivable and inventory. The indirect method of reporting operating activities will show these asset categories increasing while cash is decreasing. Likewise, accounts payable, a liability category, may be increasing which would have a positive effect on building cash.

The final net cash flow number from operating activities will be the same with both reporting methods.

Cash Flows from Investing Activities. Many companies are required to make capital expenditures in long-term tangible assets in order to operate their businesses; examples could include real estate, trucks, or equipment. The expenditure will decrease cash while the salvage value from selling the equipment will increase cash.

Cash Flows from Financing Activities. This section of the statement provides information about cash flows from both debt and equity sources. Cash can be decreased by owner dividend distributions or by paying down debt; it can be increased by owners investing additional funds into the business or by raising capital from a lending institution.

Exhibit C

Direct Method Cash Flow Statement

Cash Flow from Operating Activity

Net Income	$1,000,000
Cost of Goods Sold	($600,000)
Operating Expenses	($300,000)
Interest Expense	($25,000)
Net Cash Provided by Operating Activities	$75,000

Cash Flow from Investing Activities

Fixed Asset Purchases/Salvage	($25,000)
Net Cash Provided by Investing Activities	($25,000)

Cash Flow from Financing Activities

Short Term Bank Note	($15,000)
Long Term Bank Financing	$25,000
Dividend Dispersements	($35,000)
Net Cash Provided by Financing Activities	($25,000)

Net Cash Increase/Decrease for period	$25,000
Cash at Beginning of Period	$10,000
Cash at End of Period	$35,000

Exhibit D

Indirect Method Cash Flow Statement

Cash Flow from Operating Activity	
Net Income	$95,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Accounts Receivable	($45,000)
Inventory	$25,000
Depreciation Expense	($35,000)
Accounts Payable	$10,000
Net Cash Provided by Operating Activities	$50,000
Cash Flow from Investing Activities	
Fixed Asset Purchases/Salvage	($15,000)
Net Cash Provided by Investing Activities	($15,000)
Cash Flow from Financing Activities	
Short Term Bank Note	$25,000
Long Term Bank Financing	$15,000
Dividend Dispersements	($50,000)
Net Cash Provided by Financing Activities	($10,000)
Net Cash Increase/Decrease for period	$25,000
Cash at Beginning of Period	$15,000
Cash at End of Period	$40,000

Common Financial Ratios as Tools

One way to interpret financial performance is with the computation of ratios. Ratios will not provide answers; however, they are helpful indicators when comparing current performance to past performance or when comparing to industry standards. For example, the industry averages for gross profit margins for retail furniture stores may be published to be 46 percent, average sales per square foot to be $185 per square foot, an inventory turn-over ratio of 3.5, advertising as a percentage to sales at 7 percent and a net operating profit of 5 percent. When you know what the average performance is of the competitors within your industry, you have a yardstick against which to measure your own performance. The following are some commonly used ratios.

Common Size Ratio. This is a ratio that expresses the percentage of a line item to the total and is commonly used on the income statement (see Exhibit B). Common size ratios are useful in evaluating your line item percentages to industry averages or comparing your line item percentages from the current quarter to last quarter or current year to previous years.

Current Ratio. This ratio expresses, as a number, a comparison of the current assets to the current liabilities. For example, in Exhibit A the total current assets are $800,000 and the total current liabilities are $599,000 or a current ratio of 1.33. Lenders like to see a current ratio of 2. You compute the current ratio by dividing the current assets by the current liabilities. The current ratio indicates the financial strength of the company. The higher the current ratio is, the stronger the company's ability to meet its short-term financial obligations.

Acid Test. Also known as the *quick ratio,* this is another way to test the company's ability to pay its short-term financial obligations without liquidating inventory. The acid test of liquidity is a more serious test than the current ratio because it excludes inventory and pre-paid expenses from current assets. To compute the acid test, take the total of the cash and the accounts receivable from the current assets in Exhibit A (any short-term marketable securities would also be included), which equals $300,000 of quick assets. Divide the quick assets by the current liabilities of $599,000. Using the balance sheet in Exhibit A the quick ratio would be 0.5. Lenders prefer the ratio to be 1 or greater. A ratio of 0.5 or lower is cause for alarm because your liquid assets are not large enough to meet your current debt obligations. Inventory is not considered a reliable liquid asset because there is usually a cost associated with turning inventory to cash.

Working Capital to Sales Percentage. This ratio compares your working capital (current assets minus current liabilities) as a percentage to your sales. For example, the working capital of $201,000 (in Exhibit A, current assets of $800,000 minus current liabilities of $599,000 equals working capital of 201,000) is divided by sales in Exhibit B of 1,000,000, which equals 20 percent. The working capital is expressed as a percentage to sales, or 20 percent. The higher the actual working capital is relative to a constant revenue number, the higher the working capital will be as a percentage of sales. A higher working capital to sales percentage indicates a stronger cash flow and an improved ability to pay bills on time. Positive working capital is a part of operating capital that ensures your company is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of your working capital involves managing inventories, accounts receivable, payables, and cash. Managing cash relative to these asset and liability accounts will be discussed in the upcoming pages.

Debt-to-Equity Ratio. This ratio expresses the total debt (including both current and long-term liabilities) to the total equity. This ratio tells a lender the company's capacity to borrow additional funds based on the ratio that tells how much money the company owes others versus the value of the owner's equity. For example, in Exhibit A, the total liabilities is 699,000 and the total equity is 301,000, yielding a debt-to-equity ratio of 2.3:1. You compute the debt-to-equity ratio by dividing the total liabilities by the total equity. Banks prefer a debt to equity ratio of 2:1. A higher ratio, for example, of 3:1 or 4:1 tells the lender that the company has more debt relative to owner equity. The higher the debt is relative to equity, the greater the perception of financial risk.

Inventory Turnover Ratio. This ratio compares your annual cost of goods sold (or inventory sold) to your total inventory on hand at cost (including freight). For example, in Exhibit B you would take your total cost of goods sold for the year, or $550,000, and divide that by your total inventory from Exhibit A (including freight), or $500,000, which equals 1.1. That number tells you how many times you turn your inventory per year. You should compare this number to industry averages. The higher the number, the better you are using the cash invested in inventory to generate sales. A higher number also tells you the salability of your inventory in a competitive market place.

Sales per Square Foot. This is a number most commonly used by retail stores that simply tells you what your sales are per square foot. For example, divide annual sales in Exhibit B, which is $1,000,000, by the total square footage of sales area. If your square footage is 10,000 square feet, you would be selling $100 of sales per square foot. Your sales per square foot number can be compared to industry averages. The higher the number, the better you are utilizing your investment in your real estate and your inventory to generate sales. A higher sales per square foot number tells you how well you are doing regarding a host of management actions that positively or negatively affects sales.

Fixed Asset Ratio. The fixed asset ratio shows the productivity of a company by examining the amount of sales that are generated from the company's investment in fixed assets (e.g., plant and equipment). To compute the fixed asset ratio divide sales by the fixed assets. Utilizing the numbers in Exhibits A and B, the ratio would be 5:1. When you consider the capital expenditures required for fixed assets in different industries, you can quickly realize this ratio can vary widely from industry to industry. It is important to do comparisons within industry standards.

Profit Ratio. The profit ratio tells you the percentage of profit for every dollar of sales after deducting all of the expenses. In Exhibit B the profit percentage is 5 percent, which is computed by dividing the $50,000 net profit by the sales of $1,000,000. Profit margins can vary widely from industry to industry; however, 5 to 10 percent is common.

Gross Profit Margin. Gross profit margin is the dollars you make on every sale after deducting the cost of goods sold. Calculate the gross profit margin by dividing the gross profit (sales less cost of goods sold) by the sales. In Exhibit B, divide $450,000 in gross profit by $1,000,000 in sales equals a 45 percent gross profit margin. The gross profit margin must be large enough to pay all of the expenses and have enough left to generate a profit. Compare your gross margins to industry standards. Never underestimate the impact of a change to your gross profit margin. Every change, no matter how small, goes directly down to the bottom line.

Return on Assets. The return on assets ratio will tell you how productive your assets are in producing a profit. To compute the return on assets, divide the operating profit (before interest income and income tax expense) by the net operating assets (total assets minus non-interest-bearing liabilities). Compare your return to the interest rates you are paying on debt. If your ROA is 12 percent and you are paying 7 percent for borrowed funds, the company is making a net gain of 5 percent on its borrowed capital. Companies with an ROA less than the interest rate on their debt are not generating enough operating profits to validate the debt incurred to finance the profit-generating assets. These companies need to examine the productivity at every level of their businesses.

Return on Equity. The return on equity ratio is the amount of net profit or income you are generating from the owners total equity. To compute the return on equity, divide the net income by the total equity. In Exhibit B divide the net income of $50,000 by the total equity of $301,000 in Exhibit A to give you a 16.6 percent return on equity. Compare your return on equity to beating average annual returns on common stocks and government bonds.

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Develop Efficient Business Processes

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

DEVELOP EFFICIENT BUSINESS PROCESSES

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

DEVELOP EFFICIENT BUSINESS PROCESSES

Introduction

When your customers think of you, what comes to mind? Is it your product, your employees, a commitment to ongoing customer service, an array of convenient purchasing options, or your logo?

Hint: It's none of the above.

Experienced business owners will answer that your business is really "your processes." A business is only as good as its operating processes. A "process" is an abstract thing, but these invisible systems have a big job: They are responsible for making a good impression, saving time, and boosting your bottom line. After all, what good is your product or service if you do not have a system for finding new customers; a way to efficiently deliver the product or service; or a means by which you ensure quality control and customer satisfaction? Think about it: If your processes are clunky, or just not quite as smooth as your competition's, how can your business survive—let alone grow? Superior *business processes* separate you from your competition.

Companies have been beating their competition with superior processes for decades, if not centuries. The Fuller Brush Company, founded in 1906, developed a direct door-to-door sales and delivery process to beat its competition. It saved the consumer time and made it more convenient to purchase personal care items. Sears and Roebuck Company developed a new sales and delivery process to capture the markets of rural America in 1927. The company's revolutionary sales and delivery process was direct mail order catalogs—a new sales and delivery process that alleviated the purchasing frustrations of rural America. In the 1960s, selling a hamburger, French fries and a Coca-Cola was nothing new or exciting; what differentiated McDonalds from the competition was not the product itself, but instead its superior processes in producing and delivering the product. And in 1963, Mary Kay Ash built a multi-million dollar cosmetics company by beating the competition with her home party sales and delivery processes, which capitalized on turning purchasing into a fun, social experience at home—where customers could sample the product while getting positive reinforcement from friends, and then purchase the product instantly.

Examples of new sales and delivery processes continue today with different faces. Consider Ebay. This company transformed America with its innovative sales and delivery processes using a website that effectively finds buyers for people's unwanted possessions. Think about UPS, Merry Maids, TruGreen Chemlawn, Rapid Oil Change, or Tupperware products. All of them are examples of leaders in their industries who succeeded on the strength of their competition-beating processes.

The take-away is simple: The most successful way to sell a product or service is often a unique, new process that finds customers and delivers the product—and does it more efficiently than the competition. To be successful at developing efficient business processes that differentiate your company from the competition, you must know what benefits your customers want, what your competition is doing to satisfy these wants, and what the competition is not doing well.

Win at Biz Scorecard

- **Do your sales and delivery processes differentiate you from the competition?**
- **Do your processes find more customers and satisfy customer wants better than the competition?**

An excellent book on building process-run businesses is *The E-Myth: Why Most Businesses Don't Work and What To Do About It*, by Michael E. Gerber. The *E* in his title stands for *entrepreneur*, and his series of books on entrepreneurship hinge on four important insights about process. They boil down to one crucial piece of advice: The secret to operating a successful business is to devise successful processes.

Insight 1: Processes Create Loyal Customers

Nordstrom retail clothing stores are an epitome of consistency. In a cutthroat competition for customers' department store dollars, Nordstrom has prospered by consistently delivering quality merchandise with a customer service attitude that is second to none. Consumers shop there because they can count on receiving exceptional customer service every time they visit the store. The secret to consistency is more than luck—more, even, than hiring a few great managers or employees. Nordstrom delivers consistent customer satisfaction due to its superior purchasing and training processes. These processes create consistency.

Likewise, it is only through efficient processes that you can build the same type of customer loyalty. Your company's operations depend on efficient business processes. How can a company possibly grow and prosper if it cannot deliver reliable, consistent results?

- An efficient business with proven processes creates consistency, and hence loyalty.
- Proven marketing processes allow the company to consistently develop new leads and new customers.
- Proven production processes generate consistent quality in the product or service.
- Proven delivery processes of the product or service into the consumer's possession create consistent customer satisfaction.
- Repetition of these proven processes will ensure consistency of growth and profitability.

A process-run business is also not the victim of variations in human behavior. It does not depend on people with specific knowledge or experiences, but instead can be operated by ordinary people trained to operate a few simple processes. In other words, the people run the processes; the various processes within the company all integrate together to run the business.

Ordinary people can deliver extraordinary results when they operate in an efficient process. One of the best examples of this we encounter every day is the fast food business. Subway, Kentucky Fried Chicken, and Starbucks are all examples of businesses that need to prepare food with consistent quality in a clean atmosphere, and deliver it with speed and a smile. Amazingly, these businesses are operated successfully by teenagers all over the world.

Insight 2: Never Stop Working to Improve Your Business Processes

Michael Gerber says in *E-Myth Revisited*, "Work on your business, not in it." In other words, if you own a business, you should be spending more time improving your business processes than getting bogged down with the day-to-day details.

The goal of any business owner or manager is to continue to improve the company's processes so that its processes are superior to the competition's. Experiment, and quantify the end result of the processes relative to

- the efficiency in finding new customers,
- the consistency of the quality of the product or service,
- the predictability of the delivery, and
- your customer's level of satisfaction.

Do your processes deliver what your customers want while beating the competition in all of these areas? As long as your processes continue to satisfy customers beyond their expectations and beat the competition, you will not only increase productivity but also grow your sales and profitability.

Think of the last time you received poor service from a home-related service company. A pool service company comes to mind. My wife and I live in Minnesota and were having the pool opened up in the spring of the year. We arrived home after a busy day at work only to find the pool cover left in a pile on the pool patio, the leaves that were on top of the pool cover strewn around the pool area, and the pool furniture moved and disheveled. We sent a detailed letter with our payment indicating our dissatisfaction with how the job site was left.

I often wonder what action the owner took after receiving our letter. Did he call the crew into the office and blame them for their carelessness and poor workmanship, or did he look in the mirror and go to work on improving the effectiveness and efficiencies of his training and follow-up processes?

As you begin to work *on* your business rather than *in* it, start by developing your business processes one at a time. When something goes wrong, don't blame your people; look for deficiencies in your process and correct them. Improving your processes is an ongoing effort that will reward the company with more and more satisfied customers. The work doesn't end when you've revised all your processes, either. If your objective is to build a profitable growth company, you must constantly raise the bar—making these processes ever more efficient—to satisfy customer wants better than the competition does.

In a later section, we will talk about Six Sigma, a program for improving the efficiencies of your processes. (There is even a process for improving your processes!)

Insight 3: Your Job Is to Provide Tools and Training

Let's compare a common service many of us have used: a lawn care company. Company 1 has no business processes in pace. You call Company 1 to request an estimate, and leave a message. Several days pass without a return call. The salesperson that finally shows up is not in uniform and not very knowledgeable. The delivery of the service is days late, and when the truck does show up, it is dirty. The workman is disorganized and lacks knowledge, and the equipment breaks down. Between treatments, there is no consistency of workmanship. When you call the office for help, you get a voicemail or an uninformed customer service person who has to defer your questions to the owner, who is not in the office. There is no follow up or quality control to ensure your satisfaction.

Compare this to Company 2, a company that is committed to developing written business process manuals that run the company with clockwork precision. Company 2 has an operating process in place such that when you request an estimate, a knowledgeable, uniformed salesperson visits your lawn in 24 to 48 hours. Professional, informative literature is left, and the processes generate a follow-up sales call that evening from helpful and courteous customer service people. The business processes produce timely service by trucks that are clean, and uniformed workmen who perform the service exactly the same way every time they treat your lawn. You can count on consistent, quality, reliable service by well-trained, knowledgeable individuals because of these written, efficient processes. When you have a question, the customer service people who answer the phone are friendly and knowledgeable because they have been trained by and work within efficient, written processes. Additional quality control processes kick in after the service has been performed to ensure complete customer satisfaction.

The moral of this story: All processes are integrated if you want to leave customers with a good impression. For example, what is the benefit of a clean truck if the workmen are poorly trained? Or for that matter, why write sales processes if they are not integrated with efficient sales training? Other business processes will not be beneficial to the company if you do not provide your people with the tools and training they need to properly operate the processes for which they are responsible.

First, in order for your processes to become an integrated part of your business, all of your process procedures need to be written in a manual. This includes your

1. marketing and sales processes,
2. hiring process,
3. production process,
4. quality control processes,
5. delivery processes,
6. financial processes, and
7. customer service processes.

Your written process manuals will become part of the training for new employees. And likewise, these training procedures constitute an eighth item on the list above: a section that articulates these training processes in detail. Within this eighth section of your manual, you will also want to cover what you expect from your employees:

a. The ideas, actions and goals that are responsible for the success of the company.
b. The job description of the employee.
c. How the employee's position fits into the company picture and affects the goals and success of the company.
d. What systems are to be utilized and what the expected outcome is.

You will see these points discussed in detail in Book 6 of the Win at Biz series, *Train for Productivity*.

As a consumer, you know that it becomes all too obvious when you are doing business with a company that has established, proven processes in place compared with a business that does not.

As a businessperson, if you hope to manage a profitable company that beats the competition and satisfies customers, you need to provide your employees with written processes, efficient training, and the tools that they need to perform like experts.

Insight 4: Empower Employees, Improve Your Business Processes

Companies that visualize things through their customers' eyes and develop business processes to deliver what they want will have an advantage over the competition. Get your employees to monitor customer comments and complaints. Only when your company begins to listen to your customers can you start to deliver what is important to them.

One employee-empowering program is Six Sigma, and it is designed to improve business processes. An introductory book detailing the Six Sigma program is *What Is Lean Six Sigma*, by Mike George, Dave Rowlands and Bill Kastle. Its focus is to raise the level of customer satisfaction, improve profitability, and foster teamwork among employees. The principals of the program focus on serving the customers' needs.

One of the many ways the Six Sigma program can help to improve business processes within a company is to use employees to document every customer complaint. As employees record all complaints, you will accrue information about how customers define quality and what is important to them. A Six Sigma team is then created with representatives from different departments, who collect data on the problems that appear to be creating customer dissatisfaction, and ultimately develop solutions to these problems.

To improve, you must get rid of quality variations and defects. A *defect* is simply a lack of quality or speed that creates a gap between what a customer expects and what the company actually delivers. Any company whose product varies in quality is going to incur a lot of defects, thus disappointing customers. Once you improve operating processes to increase speed and consistency, you will be viewed as a more reliable resource and will have developed an advantage over your competition. Customers will become more loyal and operating costs will decline.

As the team works together to improve business processes, the company will realize additional benefits from everyone working together toward common goals. As each team member shares information openly and is involved in the decision-making process, it will give everyone an opportunity to be heard, creating a sense of ownership. Communication will improve among employees in various departments.

Additionally, consider developing reward programs for the Six Sigma team members. A good reward program is tied to desired outcomes. For example, the reduction of the time of production from order entry to ship date, reducing the number of customers who drop out of a continuous re-ordering cycle or reducing the number of complaints regarding the quality of the product could all be goals with incentives tied to improvement.

Consider the actions of this manufacturing company. Management established a goal to ship 95 percent of their orders within twenty-four hours of the order entry date. They also established a goal to reduce the packaging errors from four one-hundredths of one percent to one one-hundredth of one percent of all orders being shipped. The management understood that if they could excel in satisfying these customer wants, they could develop the customer loyalty they desired to lock out their competition. These outcomes could be measured and the production employees were rewarded with quarterly bonuses for achieving the desired results.

Win at Biz Checklist

✔ Do you work on developing and improving the operating processes to run your business versus getting lost in the day-to-day details of your business?	☐ Yes	☐ No
✔ Do your processes out perform your competition? Are your processes more efficient at (a) attracting new customers? (b) achieving consistent quality? (c) producing convenient and predictable delivery? (d) satisfying customers?	☐ Yes	☐ No
✔ Have you developed your operating processes in written manuals? Do you supply your people with the proper tools to operate the process efficiently?	☐ Yes	☐ No
✔ Do you have a formalized, written training program so your people understand their roles in the company, how to operate the processes, and how the outcome of their position affects the success of the company?	☐ Yes	☐ No
✔ Do you empower and reward employees in an established program, similar to Six Sigma, to improve your operating processes?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Hire The Right People

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

HIRE THE RIGHT PEOPLE

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

HIRE THE RIGHT PEOPLE

A company's most important asset is a human one. Its value is in the sum total of its people: their talents, creativity, knowledge, ambition, common business sense, morals, and ethics.

If a company is comprised of the group of workers at its heart, then their productivity is going to determine its profitability, growth rate, and success. By definition, productivity is the rate at which goods or services create economic value. Now do the math. The more goods or services you produce per hour of labor expense, the more economic value is created for your company. The greater the economic value, profitability, and financial opportunity, the bigger the benefit to everyone involved in the company.

To have a competitive edge in the marketplace, a company must be productive in every phase of its business. Your producers are everyone: the clerical and customer service staff, sales department, back room production staff, outside service people, shipping and receiving staff, and management. All must have consistent productivity. How do you build a company of people where everyone is productive and creating economic value?

This e-book will focus on the skills you need to find and hire a winning team. Successful leaders of growth-oriented companies know that building a productive, competitive company requires hiring practices that search for the right people. Once you hire the right people, you must then develop business process systems to train and motivate both the employees and their supervisors for productivity. (Training and motivational business processes are discussed in Book 4 of the Win at Biz series, *Develop Efficient Business Processes*.)

Productivity does not just happen. It is part of the culture that starts at the top of an organization and is turned into action via disciplines and efficient business processes that create excellent hiring, training, and motivational programs. Furthermore, every hire you make is representing your company, the company's customers, its reputation, and your investment. To have the best company, you must employ the best people. The following information will get you started in the right direction toward developing a successful recruitment program.

Hiring Mistakes Are Costly

Take a second to add up the real costs that are involved in placing the wrong person in the wrong position—including the cost of advertising, the interviewing process of several candidates, the training costs, and the salary and benefits of the new employee for the number of months employed. In addition to the real costs are all of the hidden costs, including the loss of productivity incurred by placing the wrong person in the position, missed opportunities, dissatisfied customers, loss of competitive advantage and the negative effects that a low producer has on the morale of the other employees.

Remember, coworkers will spot a poor hire very quickly. In short, good hiring processes bring economic value to your business. Poor ones sap your company's finances, goodwill, and energy.

Surprisingly, even though poor hiring decisions are such a drain on a company's bottom line, many companies do not invest the time into planning effective interview processes or properly training and preparing their interviewing managers to conduct positive searches.

Win at Biz Scorecard

Measure the actual costs of each hire to gain a better understanding of the consequences of a bad hire. Accomplish this by recording the actual costs that are incurred with each new hire.

14 Common Hiring Mistakes

The following is a list of the most common hiring mistakes that can undermine your hiring process.

1. Not predetermining what specific talents, skills, knowledge, behaviors and motivators you need to conduct an effective search for a top performer.
2. Failing to prepare a well-thought-out, written hiring plan or process.
3. Failing to develop an informative and accurate list of questions for candidates.
4. Not pre-screening candidates for required knowledge, experience, and salary expectations. Pre-screening will save your company time and money.
5. Failing to prepare the candidate with information about the company and details of the job description prior to the interview.
6. Hiring people whose viewpoints, style, and personality are too similar to your own.
7. Raising the qualifications for the position to unrealistic standards. This approach can lead to hiring people who are overqualified for the position, leading to boredom and lackluster performance.
8. Not requiring each candidate to interview with two or three supervisors.
9. Relying on only the interview itself to select your candidate, rather than using several different methods of evaluation.
10. Not introducing more "do and observe" methods into the interview evaluation process. (For instance, walking the candidate through the company and asking specific questions about tasks that are taking place. "How would you improve the productivity or quality of this process?" Also consider observing the candidate learning a new task to see if he or she is a quick learner.)
11. Not having a rating process in place to subjectively evaluate and differentiate the various candidates.
12. Not checking references or background history thoroughly.
13. Not developing a large enough pool of good candidates.
14. Making a hiring decision too quickly.

Use the Right Search Process

The first area of a successful hiring process is to commit a well-thought-out, effective plan to paper. These written processes will become the hiring systems that will allow your human resources department or supervisors to become more consistent at hiring for productivity.

A good hiring process will find the right candidates, ensure intelligent hiring decisions without guesswork, and match the right candidate to the right position. This effective hiring process includes

- writing a job description,
- determining what qualifying factors will lead to success,
- developing questions to uncover those success factors,
- objectively rating each candidate,
- outlining a step-by-step interview plan, and
- completing a reference and background check.

As you work through these steps, you may also want to check out *How to Choose the Right Person for the Right Job Every Time,* by Lora Davila and Louise Kursmark, as a helpful guide.

Win at Biz Scorecard

Start building a more effective hiring process today!

Start by Defining the Job Description

In order to determine what success factors you are looking for in a candidate, it will be necessary to define the job position. Start by defining the *purpose* of the position in one or two sentences. Next list the *job duties* and primary responsibilities that this position will require. Give a complete description of the *performance outcomes* that this person will be required to deliver. See Exhibit A for a helpful aid in developing an accurate job description.

Exhibit A

Job Description

Job title: Retail furniture sales manager

Purpose: To lead the sales staff in developing a superior level of sales and customer satisfaction relative to the competition while also personally generating sales.

Job duties: Take turn with other sales people to sell on the sales floor while also managing the sales staff. Management duties would include the training of product knowledge and sales skills, supervision and delegation of sales duties, maintaining sales tools, handling customer complaints, creating a positive work environment.

Performance outcomes: Meet of exceed monthly and annual sales targets with a high level of customer satisfaction.

Win at Biz Scorecard

Have you defined a written job description for each position within the company?

Determining the Qualifying Success Factors for Each Position

From the job description outline you have prepared, you then determine what success factors will qualify a candidate for the job. The four categories for which you will measure competency are talents, technical skills and knowledge, performance skills, and the motivational work environment.

To be successful at hiring productive people, you will need to understand the importance of identifying and searching for *talents*. I encourage you to read *First, Break All the Rules*, by Marcus Buckingham and Curt Coffman. The book offers excellent ideas for achieving higher levels of performance by selecting people on the basis of their talents. The point is that talents are considered more important than skills or knowledge—because job-specific skills and knowledge can be taught, whereas talents cannot. Talents are what an individual is wired to do.

Everyone experiences and perceives the outside stimuli of the world differently. Talents are unique patterns of thoughts, feelings and behavior that a person enjoys repeating often. That is why we label people as planners, list-makers, problem-solvers, mechanically inclined, artistic, or people-persons. Generally if a person is passionate about his or her job it is because talents align with the job duties being performed.

Generally wherever one’s passions lie, so do their inner talents. It is for this reason that when you hire people who are passionate about their work, they will undoubtedly be more productive. For example, the skills of an accountant would be understanding arithmetic; an accountant’s knowledge comprises learning double-entry bookkeeping. But for an individual to be wired as a successful and productive accountant, he or she must experience positive feelings when working with numbers, problem solving, and balancing the books. If a person’s talents are aligned with a customer service position, he or she would experience rewarding feelings every time he or she satisfies an angry customer. The same positive feelings must arise every time a professional salesperson closes a deal, or a repairman fixes something. These feelings of satisfaction and pride of workmanship come only from inner talents and passions.

Examples of the required *technical skills and knowledge* may include understanding a specific software program, possessing knowledge about a certain product or industry, having completed a specific course of education such as interior design or architecture, having demonstrated a high proficiency in salesmanship, and possessing specific knowledge and licenses, such as those required to sell insurance or real estate.

Performance skills are behavior-based skills that will be required to perform the job. For example, a manager who is responsible to supervise and motivate others must possess good listening behavior, a salesperson would need a persistent behavior, and a customer service representative handling complaints would need behavior that exhibits patience and tolerance for stress. Every job description will require specific behavior skills that you will need to identify in order for your interview plan to help you find a good match. A sample list of additional behavior skills would include the following:

- flexible
- good time management
- planner
- goal driven
- risk taker
- encourager
- caring
- energizer
- problem solver
- resourceful
- persuasive
- good communicator
- organizer
- logical
- independent
- self-starter
- good empathy skills
- detail oriented
- takes initiative
- high integrity
- creative
- determined
- ambitious
- good listener
- high stress tolerance
- patient
- honest
- delegator
- persistent
- conscientious
- courteous
- friendly
- respectful
- responsible

Motivational work environment preferences are extremely important to identify, as they are the number one reason for people leaving their job. Examples of a motivational work environment may be found in a person who prefers achieving the desired outcome through a team effort rather than accomplishing the task alone. Another example may be a candidate who prefers working for compensation that is performance-based versus receiving a fixed salary. Or possibly the work environment offers job duties that are very redundant; this would eliminate a candidate who prefers a wide variety of work. It will be important to identify these work environment preferences so your interview process searches for a candidate who is a good match.

See Exhibit B for a helpful aid in determining these four success factors for your available position.

Exhibit B

Qualifying Success Factors

Job title: *Retail furniture sales manager*

Talents: *Enjoys working with color and fabrics, enjoys finding solutions to clients decorating challenges, enjoys educating and teaching others, thrives on organization and detail*

Technical skills and knowledge: *Interior design education, retail furniture sales experience, knowledge of window treatments, customer service experiences, training and motivational experience.*

Performance skills: *Listening, attention to detail, initiative, treats others fairly, customer focus and interest, delegation, integrity, follow-up, organizing, time management, communication skills, persistence, logical presentation of information, patience, self-starter.*

Motivational work environment: *Enjoys working indoors with co-workers who may be in a competitive wage relationship. Can move around and work on his or her feet most of the day. Desires to derive a portion of income from sales commissions or sales production bonuses. Is available to work evenings and weekends.*

Win at Biz Scorecard

Have you determined the qualifying success factors for each position?

Use the Right Interview Questions

Let me guess: When you think of interviewing, you think of the questions, right? What you are learning, though, is that good questions are only as good as the process you've used to get a candidate in front of you. Assuming you've broadcasted an accurate job description, and decided what qualities your ideal candidate must possess, only *then* can you design the questions.

Remember, you are looking for specific answers: ones that reveal competencies and useful information. The three styles of questions we will discuss are traditional, situational, and behavioral. You may mix the various styles to uncover each candidate's traits and competencies in your search for a good match.

Traditional questions are open-ended, groundbreaking questions aimed at getting to know the candidate better. Traditional questions may or may not help the interviewer get to know if the candidate is a good match for the position. Often candidates will simply offer well-rehearsed answers that do not give a real picture of his or her true competencies. Examples of traditional questions would be, "What is most important to you in the workplace?" or, "Tell me about your biggest career accomplishment," or, "Why do you wish to work here?"

Situational questions are also open-ended questions, but they require the candidate to formulate an answer to a hypothetical situation. These questions usually start out with, "Give me an example of how you would…" or, " What would you do if…?" or, "How would you handle the situation if…?" An example of a situational question would be, "How would you handle a situation where a deadline for a project is due in a few days and your team is running behind schedule?" Situational questions test the candidate's thinking and tell you what the person *may* do if this situation were to arise.

Behavioral questions are designed to get information about specific past performance. If you can uncover past performance, you can predict future performance. Questions are constructed to uncover specific human traits and competencies for which you are searching. In order to develop the most effective behavioral questions, the interviewer must pose questions that reveal a real-life, job-related experience. The experience needs to relate to a specific competency. Request the situation in which the experience took place, the action the candidate took, and the results of the action.

Behavioral questions usually start out with, "Describe for me a situation where you were…" or, "Tell me about a time when you were…". Behavioral questions will require the interviewer to ask several follow-up, probing questions. These probing questions might be, "How did you handle the situation?" or, "What did you do or say in that situation?" and, "What were the results of your action or decision?" An example of a behavioral question would be, "Give me a specific example of the most difficult bad debt you had to collect that was over 120 days past due.

Examples of Traditional Questions[1]

1. How were you able to stay so long (so short) at your previous job?
2. What is most important to you in the workplace?
3. Tell me about your responsibilities growing up?
4. At what age did you begin working?
5. Tell me about any volunteer work you have done.
6. Tell me about new responsibilities you have taken on as your career has progressed.
7. What is your biggest career accomplishment?
8. What was the least appealing (or most appealing) to you in your last job?
9. Why do you wish to work here?
10. Tell me about which subjects you enjoyed most (or least) in school.
11. How many hours a week are you accustomed to working?
12. Tell me about any conflicts you have had with coworkers or management? How did you resolve them?

---

[1] Questions 28–43 and 54–55 are taken from *How to Choose the Right Person for the Job Every Time*, by Lori Davila and Louise Kursmark (McGraw–Hill 2004). Questions 44–53 are taken from *96 Great Interview Questions to Ask Before You Hire*, by Paul Falcone (AMACOM 1996).

13. Explain your understanding of this job's responsibilities.
14. What can you do for us that someone else cannot do?
15. What beliefs do you hold deeply as a result of your life experiences?
16. What plans do you have for self-improvement and personal development?
17. What kinds of things do you learn quickly?
18. What kinds of things do you find difficult to learn?
19. How do you plan your day?
20. What would you like to do on Monday morning if you could choose?
21. What do you enjoy doing most in your free time away from work?
22. What types of work do you find most (or least) rewarding?
23. What do you do best in the workplace?
24. What gives you satisfaction in the workplace?
25. What are your five-year career goals?
26. Why would you be successful in this position?
27. What would your previous supervisors say about you?
28. Why do you want to work for us?
29. Do you work well under pressure?
30. Do you consider yourself a leader or a follower?
31. Do you work well in teams?
32. Do you prefer a structured or loose working environment?
33. What will your coworkers say about you?
34. What will your subordinates say about you?
35. Define your leadership or management style.
36. Describe your decision-making style.
37. How do you evaluate success?
38. What are your views on continuing education?
39. What have you done to improve your professional skills this year?
40. What are you looking for in a new opportunity?
41. What will you bring to this position that another candidate will not?
42. How long do you expect to stay with our company?
43. What are you compensation requirements?
44. Tell me about your greatest strengths (or weaknesses).
45. What was your favorite (or least favorite) job position?
46. What makes you stand out among your peers?
47. What has been your most creative achievement?
48. What would your past supervisor say makes you most valuable to them?
49. What areas of skills do you need to improve upon in the next year?
50. How do you approach your work from the standpoint of balancing your career with your personal life?
51. How have you added value to your past jobs?
52. What does personal growth mean to you?
53. What type of work environment do you work in best, one that is structured with specific directions or less structure with more room for creative thought?
54. How would you describe your ideal position?
55. How would you describe your ideal supervisor?

Examples of Situational Questions [2]

1. If you had a subordinate who was consistently late for work, what action would you take?
2. If you had a team member who was not contributing, how would you deal with it?
3. If you had a communication problem with a supervisor, what would you do?
4. If there was a company policy wit which you disagreed, how would you handle it?
5. How would you react if you were asked to do a task outside of your job description?
6. If you were in a stressful situation, how would you react?
7. What would you do if you became aware of a coworker's personal problems and it was affecting his or her productivity?
8. When you are in a situation where you have to deal with a company's shortcomings, how do you deal with it?
9. If you were to work for this company, what type of corporate culture would you create?
10. How would you react if you had your job redefined to meet the changing needs of the company?
11. If I told you that this position has growth potential, what does that mean to you?
12. If you were not getting along with a coworker, how would you deal with the situation?
13. If you had an uncompleted project that was now due, how would you handle the situation?
14. If you were aware of dishonest actions by a coworker, what would you do?
15. If you were offered a financial incentive, how would that motivate you?
16. If you were confronted with an unhappy customer, how would you react?

Examples of Behavioral Questions

1. Give me an example of a time when you compromised on one of your most basic principles and it backfired on you. How did you correct the situation? What were the results?
2. Tell me about a large-scale change that you faced. How did you handle it? How did it turn out?
3. Tell me about a project where you had to be very disciplined and persistent to complete the task successfully. How long did it take you? What obstacles did you face? How did you overcome them? What were the final results?
4. Give me an example of a project that was initially unsuccessful but at which you ultimately succeeded. Why did it fail? What corrective actions did you implement? Why did it ultimately succeed?
5. Tell me about a specific situations where you generated ideas to increase your company's revenue (or decreased your department's operational expenses).What did you do? What difficulties did you encounter? What were the results?

---

[2] Questions 1–7 are taken from *How to Choose the Right Person for the Job Every Time*, by Lori Davila and Louise Kursmark (McGraw–Hill 2004). Questions 8–11 are taken from *96 Great Interview Questions to Ask Before You Hire*, by Paul Falcone (AMACOM 1996).

6. Tell me about a time when you had to reinvent yourself to succeed at a task or project. What did you change? What were the results?
7. Every company has some shortcomings; give me an example of a company dysfunction with which you have had to deal in the past. How did you handle it? What happened?
8. Give me a specific example of a time when you worked with a very angry customer. How did you handle it? How did the complaint get resolved?
9. Tell me about a project in which you were the leader of others who were working together to accomplish a specific goal. What were your most successful leadership tactics? What were the final results?
10. Give me a specific situation in which you successfully sold your viewpoint.
11. How did you proceed with changing the thinking of others? What were the final results?
12. Tell me about any type of work problem you have had to solve; how did you go about it?
13. Tell me about one of the most difficult supervisors under who you have had to work; describe how you adapted to the situation.
14. Tell me about one of the biggest changes at work you have had to accept and how you adapted to it.
15. Tell me about a project at work where your self-confidence allowed you to tackle the project when others shied away.
16. Tell me about a project at work where your attention to detail made the difference between success and failure.
17. Tell me about a longer term project to which you committed yourself and the difficulties you experienced completing the project.
18. Tell me about a dispute or disagreement you have encountered with a coworker, how did you resolved it?
19. Give me an example of where you have had to use listening skills to be successful.
20. Tell me about a project where you had to depend upon the teamwork of your coworkers to complete it.
21. Give me examples of how you have learned to manage your time to maximize productivity.
22. Give me an example of a time you were responsible to set the goals and develop the plan of actions to obtain the goal.
23. Tell me your determining factors of how you take a list of tasks that need to be completed and prioritize the tasks.
24. Tell me about an experience where you have had to make a presentation in front of a group of people.
25. Tell me about the most stressful work situation that you have incurred.

As you develop your own behavioral questions, remember to formulate the follow-up questions:

- “What did you do?”
- “How did you handle that situation?”
- “What action did you take?”
- “What happened?”
- “What were the results?”
- “How did people react?”
- “Why do you think you failed (or succeeded)?”

It is the answers to these follow-up questions that will give the interviewer insight into the candidate’s behavior.

Once you have developed the corresponding questions aimed at uncovering the successful competencies you have identified for the new hire to be productive, insert the questions into your competency chart under each competency for which you are searching. (You can also use this form to record the candidate’s answers to each question.) It will allow you to compare apples to apples once you’ve finished interviewing all the candidates. See Exhibit C below; this example chart includes questions and space for applicant’s answer. For simplification, there is only one success factor listed under each category, though you will craft a more comprehensive evaluation form for your candidates.

Exhibit C

Job title: *Retail women's clothing sales manager*

1. **Talents**: *Enjoys working with colors and fabrics*

   Question: *Tell me about what you most enjoy when working with a client?*
   Answer:

2. **Technical skills and knowledge**: *Retail clothing sales experience*

   Question: *Tell me about the women's clothing manufacturers with whom you have conducted business?*
   Answer:

   Question: *Tell me what sales steps through which you lead a prospect to ultimately achieve your goal of a sale.*
   Answer:

3. **Performance skills**: *Listening*

   Question: *Give me an example of how you have utilized listening skills in the workplace to improve your success.*
   Answer:

4. **Motivational work environment**: *Must be able to work evenings and weekends*

   Question: *Tell me about a job where you were responsible to cover the sales floor evenings and weekends.*
   Answer:

96 Great Interview Questions, by Paul Falcone, offers many valuable ideas to aid you in developing effective questions for both the interview candidates and their previous supervisors.

Win at Biz Scorecard

Develop a quality list of behavioral style questions that will uncover the qualifying success factors for which you are searching.

Use the Right Interviewing Process

As in any business endeavor, planning and preparation will improve the end results. It is prudent to prepare an outline of your interview process. You'll project the company's professionalism to the applicant as well as ensure a good exchange of the required information, and ultimately facilitate a good employment match.

Tips for Conducting the Interview

- Make sure to set enough uninterrupted time aside to conduct the interview thoroughly.

- Conduct the interview in a quiet, private office with the door closed.

- Make the applicant comfortable with some personal chit-chat; feel free to reveal some personal information about yourself as well. Record your first impression of the applicant. Inform the applicant of the general interview format you will be conducting.

- Reveal some background information about the company. For example, reveal why and when the company was started. Explain what type of products or services you sell, describe your customer and what the competition looks like. Review both your price points relative to the competition and what your competitive advantage is in the marketplace. Explain the longevity of certain employees and the challenges the company is currently facing. Discuss the company's growth rate and the vision for the future. As we discussed before, you may want to update the candidate with this information prior to the interview.

- Reveal specific background information about the position, including the duties and responsibilities of the position along with performance outcomes and expectations.

- Discuss how this position fits into the bigger picture of the overall performance of the company. Again, you may want to reveal this information prior to the interview.

- Ask all of the different styles of questions that were discussed earlier in this e-book to help uncover the applicant's competencies. You may want to start with traditional questions for background information. Situational or "what if" questions are good predictors of experience levels and future actions. Well-thought-out behavioral questions will draw out previous life experiences and job-related behaviors to help determine a potential employee's abilities. It is important to develop a good list of job-specific behavioral questions that will reveal the applicant's talents, skills, knowledge, and experience so you can make a hire that will be productive. Be sure to let the applicant do the majority of the talking. Also inform the applicant that the situational behavior questions may require some thought and if the answers are not readily available it will be possible to revisit the question later.

- It is always a good idea to take notes. Note-taking tells the applicant you are interested in his or her answers and will also help you to remember important information about the applicant when it is time to make decisions.

- Give the applicant ample opportunity to ask questions. Give thoughtful, detailed answers and encourage an open dialogue. Every time the applicant speaks you have another opportunity to learn more about how he or she thinks.

- Hold off providing any specific information about compensation and benefits until you have gathered more information about the applicant and you are sure he or she has a passion for the job and is a good match for the position.

- Take the time to sell the benefits of working for the company if you think the candidate has some potential.

- Be sure to have your finalists perform as many “do and observe” tasks as possible to give you a more hands-on evaluation method.

- Communicate the next steps of the interview process, let the candidate know when they can expect to hear from you.

Tips for After the First Interview

- Complete the rating forms from your notes as soon as the interview is complete, while the information is fresh in your mind.

- It is always a good idea to have a second interview before making a hire. A second interview provides yet another opportunity to ask more questions, learn more about one another and confirm that this hire will be a good fit.

- During a second interview, it is a good idea to review some of the more important information that has been discussed, including beginning compensation, current benefits, review periods, an outline of the job description and expected performance outcomes. It is especially important to put the agreed-upon compensation and benefits in writing so there are no uncertainties.

- It may also be a good idea to have one or two other people in the company, including the intended supervisor, interview the final top two or three candidates. Additional viewpoints will help to reduce hiring mistakes.

- If you are in doubt about the applicant being a good hire, wait and keep interviewing. The larger your pool of quality candidates the better person you will be able to hire. Remember, your company’s production, reputation and investment are at stake.

Win at Biz Scorecard

It pays huge dividends to establish an effective, written interview process to hire the right people

Add "Do and Observe" Tasks to the Interview Process

Every interview must contain more elements than question and answer conversations. If you can, get the candidate out of the interview office and into the actual work environment. As you walk the candidate through the work environment, ask specific, work-related questions. Even better, arrange for the candidate to perform a job-related task. Observing a candidate performing an actual task will become one of your more accurate selection tools.

Win at Biz Scorecard

Talk is cheap. Give your qualified candidates a test drive before making your final decision.

Make the Right Choice

It helps to have some type of formalized rating scale to fairly and accurately evaluate each of the candidates. Get in the habit of completing the rating chart as soon as the interview is completed and the information and impressions are fresh in your mind. Below is a sample rating chart based on the applicant's answers to your questions.

Exhibit D

Rating Chart

For simplification we have listed only one success factor for each category

Applicants name: Tom Fischer

Job position: retail furniture sales manager

	Rating		
Talents:			
Enjoys working with color and fabric	1	2	3
Technical skills and knowledge:			
Retail furniture sale experience	1	2	3
Performance skills:			
Listening skills	1	2	3
Motivational work environment			
Working evenings and weekends	1	2	3

Rating #1: Strong likelihood candidate possesses success factors
Rating #2: Possibly possesses success factors
Rating #3: Does not possess success factors (could not provide specific examples)

Win at Biz Scorecard

Do you have some type of subjective rating system to aid in the selection process?

Verify and Uncover an Applicant's Past History

It is prudent to always check an applicant's references, conducting thorough background checks and a variety of aptitude and drug tests. Multiple evaluations will increase your probability of selecting a person that will be a good match for the position, and who can deliver the job performance you are expecting.

When it comes to checking references, who better to speak to than the employee's past supervisors? Old bosses can share valuable information about job skills, experiences, and on-the-job performance. That said, getting a previous supervisor to open up and share information with you during a reference check can be challenging for fear of legal consequences. As with any conversation, start with a drop of honey to open up the channel of communication; a little flattery never hurts. For example, you could say something like, "John said some great things about your company and management style. In return, I was hoping you could give me some tips as to the best management approach to help John succeed with our company."

You will have more success obtaining information from a supervisor if you avoid routine job performance questions, instead asking more subjective questions that do not have a right or wrong answer. Attempt to compose your questions so the answers do not need to focus on judging past performance, strengths, and weaknesses, but instead require an opinion regarding future actions relative to the candidate's abilities and experience. The following are a short list of sample questions:

- "What kind of management structure would you suggest that would allow John to excel in the role I have described?"
- "What would be the best approach to encourage John to take responsibility for tasks outside of his everyday job responsibilities?"
- "What would be the best communication approach to use to advise and correct John?"
- "Would our management style with John be more productive if we offered him more task-oriented jobs or more project-oriented ones?"
- "John will experience several changes in his job duties over the course of a year. What is the best approach to help John deal with change in his routine and last minute changes in his scheduling?"

Past employers or supervisors who are not willing to share information with you are possibly indicating there were problems with this applicant's employment. Typically a supervisor will be anxious to offer information about a well-liked previous employee. If you cannot obtain any information from previous employers, ask the applicant to obtain letters of recommendation from his or her previous employers. If previous supervisors cannot be found, request to see any annual performance reviews in their possession.

It is also important to conduct background checks. In order to hire the best candidate available, it is only practical to screen candidates for ones that have criminal backgrounds or who may have falsified information on their employment applications. When conducting your criminal search, do not rely solely on the information provided through the Internet, but also supplement your data from a competent background investigation firm. A basic search should be provided of the candidate's criminal history in all counties where he or she has lived for the past seven years, a motor vehicle report, social security verification, and a federal district court search.

Win at Biz Scorecard

Do you thoroughly investigate an applicant's references and personal history to eliminate hiring mistake? It only makes sense to know his or her proven track record.

Save Time without Sacrificing the Goal of Selecting the Best Applicant

The task of interviewing a flood of applicants can be a daunting job. When you expect a high volume of respondents to an advertisement, ask potential applicants to e-mail resumes (do not list the phone number in the ad). As the resumes arrive, e-mail a brief letter explaining the nature of the business and the pertinent details of the job description. Thank them for their inquiry and request in the letter that they contact you for an interview if they are interested in the position based upon what they have read. Generally, about two-thirds of the applicants will not respond after learning more about the position.

Next, only review the resumes of the applicants who respond and conduct pre-screening phone interviews with only those applicants who have favorable information on their resume. This procedure saves the time of fielding all of the telephone calls and reviewing all of the resumes. Additionally, you have eliminated all the applicants who were really not possibilities without having invested any time. Contacting candidates with favorable resumes by phone will further eliminate additional applicants. Be sure to train the person that will be doing the telephone pre-screening to utilize the competency chart. The objective of the pre-screening will be to search for abilities and traits that qualify the candidate for the competencies required for the position, validating them for an interview. Remember to ask the applicant to bring in written reports of past employment, including employer's names, phone numbers, compensation, a brief description of job duties and references.

Win at Biz Scorecard

How effective is your pre-screening program?

Never Stop Working to Improve Your Hiring Processes

To kick off your new and improved hiring process, take the time to develop written variations of all of the charts in Exhibits A, B and C. Invest time in having your interviewing team develop effective questions that will uncover the key competencies which you have identified for each position. Next, develop a written plan for an effective interview outline.

Once you have developed a complete interview process, you will need to have all of the participants included on your interview team practice by role play. The role playing should include an enactment of the entire interview plan with special attention given to the role playing of the questions as well as the follow-up questions.

In order to improve your hiring business process, be sure to record the resulting success of each new hire. Every time a hiring mistake is made, you should examine the interviewing process that took place, questions that were asked, what information was recorded and what vital information was missed. Then you can identify what went wrong and search for ways to improve the effectiveness of your hiring business processes.

Win at Biz Scorecard

Have you developed a format that encourages you to continue to improve your interviewing process?

Win at Biz Checklist

✔ Have you developed a written interview format that is thorough, effective, and can be used as a business process by you or your managers to deliver productive hiring results?	☐ Yes	☐ No
✔ Have you defined and completed a written job description for every position for which you may be hiring?	☐ Yes	☐ No
✔ Do you use the job description to complete a written "qualification of success factors" form to aid you in a successful search?	☐ Yes	☐ No
✔ Have you developed an effective list of open-ended questions to find applicants who possess the success factors for which you are searching?	☐ Yes	☐ No
✔ Have you developed a written outline for an interview process?	☐ Yes	☐ No
✔ Do you use a pre-screening procedure to save time in a hiring process?	☐ Yes	☐ No
✔ Do you allow enough time to conduct an interview so that all the necessary information is exchanged?	☐ Yes	☐ No
✔ Do you reveal adequate background information about the company and the job position for which you are interviewing?	☐ Yes	☐ No
✔ Do you listen patiently and intently?	☐ Yes	☐ No
✔ Do you take written notes and record the applicant's answers to the questions?	☐ Yes	☐ No
✔ Do you use a "do and observe" procedure during the interview to improve your available information and selection process?	☐ Yes	☐ No
✔ Do you complete a rating chart to help you review and select the best candidate?	☐ Yes	☐ No
✔ Do you investigate the applicant's personal and employment history?	☐ Yes	☐ No
✔ Do you get others involved in the interviewing process to gather additional opinions?	☐ Yes	☐ No
✔ Do you put all the financial agreements in writing?	☐ Yes	☐ No
✔ Do you wait to hire someone until you have found the right person for the position?	☐ Yes	☐ No
✔ Have you established a format for rating and improving the success of your hiring process?	☐ Yes	☐ No

About the Author
David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Train For Productivity

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

TRAIN FOR PRODUCTIVITY

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

TRAINING FOR PRODUCTIVITY

Introduction

Are your employees trained for productivity? What does training for productivity mean?

Training for productivity means that an employee represents the culture of the company with every action and spoken word. He or she delivers the goods, services, and/or workmanship that the company and customers expect. He or she transfers the correct information to customers and provides the desired level of customer service; performs the work expected so management can do its job; is valuable to the company; and benefits the bottom line. Productive employees are generally happier employees who value their job and are more likely to stay with the company, reducing costly and unproductive turnover.

A well-trained employee does not just happen. Detailed, written training programs are one of the business processes that run your company. This e-book will help you develop them, so that they set the stage for a new hire's education in the company. The training process guarantees that every employee in a given position is trained the same way every time, creating consistency in both quality and productivity.

If you have managers who do the training, they must be trained in how to use the training programs you develop, and carry out their work with encouraging language. The goal of every successful training program is to build success in small steps. Every time a new hire receives recognition and encouragement for his or her new accomplishments, confidence and self-esteem will grow. Increasing a new employee's confidence and self-esteem creates an environment where he or she can do great things.

This e-book is structured around a series of steps—Educate Me, Tell Me, Show Me, Watch Me, Encourage Me, and Empower Me. They will become the core of your training program, and will lead to successful outcomes for every new hire.

Educate Me, Part 1: Defining Outcomes and Expectations

Before training a new employee in the functions of his or her position, it is important to accomplish two objectives. The first is to communicate information about the position's expectations and outcomes (i.e., the products of the job). Second, how these outcomes affect the company's financial health. How can an employee possibly understand his or her financial relevance and importance to the company without this basic education?

Give your training program a test. Ask your existing employees to explain to you the desired outcomes of their labor and how their actions affect the company's bottom line. You might be surprised how many companies fail to convey this fundamentally important information in their training program.

Therefore, the first part of your written training program should include a specific, written explanation of what is expected of the new hire. As Buckingham and Coffman explain in *First*, *Break All The Rules,* when you communicate expectations, you must define the outcomes that are expected—not the steps of the job. To effectively train for productivity, the employee must be required to be productive when you are not present. Productivity training requires communicating that the employee is responsible to deliver the desired outcomes. These outcomes must be specifically defined.

For example, there may be specific production outcomes, specific customer service outcomes, a specific image outcome, specific community service outcomes, or specific sales outcomes. It is always more effective if outcomes can be expressed in some form of a quantitative number.

A complete understanding of the various outcomes expected for a given position is the first step to developing a company culture. For example, a person on a manufacturing line must understand that the outcome for which he or she is responsible is to produce 975 widgets of a specific quality standard every eight-hour shift. A sales person's outcome may be to close $100,000 of new business every month. A window washer's outcome may be to complete $500 of billable work in a ten-hour shift, presenting a professional personal image by always driving a freshly washed vehicle, wearing crisp, clean uniforms, and not receiving any customer complaints concerning workmanship.

Educate Me, Part 2: Defining How Actions Affect the Bottom Line

The second part of your written training program needs to explain how the employee and his or her position fit into the big picture. The new employee cannot possibly understand how his or her actions affect the bottom line unless their job is explained using numbers. I encourage you to read the book, *Great Game of Business*, by Jack Stack. The book argues that in order to expect bottom line productivity, you have to educate employees on the products and services the company offers, how the products or services are sold, and what the customer expects. They need to know what types of actions disappoint the customers. You must teach what events, actions, and outcomes need to take place to increase your customer base, retain customers, and grow the company's bottom line.

Many times, an employee's actions can affect the expenses of a company, the productive use of a capital investment, or the improvement of an asset or liability. Everyone needs to understand how these actions affect your financial accounts and what effect the actions have on the bottom line. The production person who is responsible for producing 975 quality widgets in an eight-hour day needs to understand what is lost if he only produces 900 widgets. He also needs to understand what the financial effect is if the widgets he produces are of substandard quality and how poor quality increases production costs and loses customers.

Whenever possible, these training exercises need to be expressed in terms of dollars. Use charts, graphs, and numbers to explain and teach these points. Once the employee understands your business and key factors in its bottom line, as well as how the defined outcomes of his or her position play into its big-picture performance goals, you are on the road toward a well-trained, productive workforce.

When you build an employee's knowledge in this manner, you are building your company. Educated employees who understand how their positions contribute to the financial health of the company will value their jobs, be more responsible, and understand how their paycheck is created. To expect people to be winners, you must define for them what it means to be a winner in the game of business.

Win at Biz Scorecard

- **Does your training program clearly communicate the responsibility of a new hire's position regarding delivering specific outcomes?**
- **Are new hires educated on how their actions affect the company's financial goals?**

Tell Me: Explain the Steps of the Job

Once the employee understands the outcome responsibilities and how his or her position affects the company's overall profit performance, it is time to move on to the next step—verbal explanation of their day-to-day job.

Any demonstration of the steps of their job will be much more effective if it is preceded by a thorough, step-by-step explanation. So, this second step of the training involves explaining the aspects and steps of the job, including the tools involved, how the tools are used, how the job should be completed, and how the customer benefits from the job being done properly. Provide a specific timetable to achieve the production outcomes.

Your goal is to develop a comprehensive mental understanding of the steps of the position before moving on to the "learn by doing" process.

Win at Biz Scorecard

Communicate the steps of the job verbally before doing a demonstration.

Show Me: Demonstrate the Steps of the Job

A demonstration paints an accurate picture in the employee's mind of what their new job entails. To demonstrate the job effectively, the person doing the training needs to break the job down into pieces and demonstrate each one carefully. The step-by-step demonstration needs to be accompanied by an explanation of WHY each step of the job is being done a certain way.

Let's use a simple example of demonstrating to a new hire the steps of receiving ten pieces of merchandise from an incoming freight company.

1. Count the number of cartons to make sure the number matches the bill of lading and the freight bill. Why? If you sign the freight bill without counting the number of cartons and you discover the shipment is short one item at a later date, the company will be liable for paying for all ten items. The company's profit will be reduced by the cost of the lost item.

2. Check every carton for damage and inspect the merchandise in any damaged cartons. Any uncovered damage must be recorded on the freight bill and signed by the driver. Why? If the freight bill is signed without noting any damage, the company will not be able to make a claim against the freight company to recover the replacement or repair cost of the damaged merchandise. Again, the profit of the company will be reduced by the cost of the repair of the damaged merchandise.

3. Complete the receiving paperwork properly. Why? If the receiving paperwork is not completed accurately, the inventory controller will enter the inventory wrong and a chain of costly events will result. One of the costly events will be the dissatisfaction of a customer who was told the item she was purchasing was in stock when in fact it was not.

From this simple example one can see that the "why" is critical to good training. The demonstration is useless if the employee does not understand the importance of each step. This rationale needs to be expressed in terms of the effect on company performance.

To increase the employee's retention of the training information, it is always more effective if your explanations can also be accompanied by a good story. I recall one supervisor of a home delivery service who wanted to make a point to the new hires—the rule was to always shut the gates to any fenced-in portion of the yard during a delivery. The supervisor told the trainees about one customer who came home and let her dog out into the fenced backyard, as she did every night when she came home from work. An employee had left the gate open, and the dog took off running through the open gate. Unfortunately, the dog was hit by a car and killed. The simple action of a careless employee created tremendous expense and emotional anxiety for both the customer and the company. An effective story is a great teacher, and improves retention.

To complete an effective and complete demonstration, it is important for the employees to see what the job looks like when it is done. This is the same principle as building a puzzle: Knowing what it's supposed to look like when it is done helps a lot. Whether the job is giving a manicure, cleaning a pool, doing data entry of new sales, using proprietary software to prepare a corporate tax return, or conducting appropriate bedside manners with a patient, seeing the finished job done properly makes a lasting impression.

Win at Biz Scorecard

For an effective demonstration, explain the "why" behind each step, including how inappropriate actions affect the company. Drive the point home with a story and show the new hire what the completed job looks like.

Watch Me: Observe, Encourage, and Correct

Now it is time for the trainee to actually do the job. Doing is the best learning method. Likewise, it's the best measurement of retention, and the trainer needs to observe the employee putting their new education into practice.

It is important during this stage of the training to encourage the employee with positive reinforcement, and provide constructive feedback for actions that need to be improved. As Dale Carnegie teaches, it is always best to start out with a drop of honey and a word of kindness. In a training situation, it is important to always precede a corrective comment with a compliment on what the employee is doing correctly.

A common mistake might be to say, "I told you how to set the tables up for Sunday brunch yesterday! Why are you setting them up like this? It's all wrong!" Negative language will only put the employee on the defensive and create negative feelings about his performance, his job, and his supervisor. Put more positively, the remark may sound like this: "Todd, I want to compliment you on how conscientious you are about setting up the tables. I really appreciate your effort. I know we did not spend much time looking at the brunch floor plan; I was in a hurry and did not devote the time to review it with you properly. Let's take a moment now to review it." After the review, which should include an explanation as to why the brunch floor plan is laid out the way it is, you might then say, "Todd, I am confident you will do a great job and that the dining room for brunch will be both functional and inviting to our guests."

Dale Carnegie has some excellent suggestions on how to go about making corrective comments while observing the work of an employee. It is always important to use kind, motivational language so comments are received positively and that the information will be retained. Another effective strategy is to have the trainer give examples of his own mistakes in a similar situation as an introduction to conveying corrective comments.

Once you have completed the reinforcing corrective communication, it is important to demonstrate the best way to perform the desired action. Remember, a demonstration is always more effective than a thousand words of description. Always relate how the actions will affect the outcome for which the employee is responsible—and always remember that much praise and encouragement is important at this step of the training.

Let's look at a corrective language example in a training situation of someone recently trained to fertilize a lawn. "Nick, you are really doing a great job of fertilizing. Your spacing is good and your pace is perfect. I would like to show you a better way to do the turn. I made the same error when I first started because I thought I could save time if I made a continuous turn without stopping. Notice as I am approaching the turn I shut off the spreader while I am still walking. Once I have positioned myself to go back in the other direction I do not turn the spreader back on until I am walking again. This turning procedure does not allow the fertilizer to come out of the spreader while you slow down your pace in the turn, which would drop too much fertilizer on the lawn and possibly burn the grass. Obviously, a burnt lawn in the turning area will create a cancellation, negatively affect our growth rate, and create some negative word-of-mouth advertising. I have confidence you can do this correctly. Go ahead and try a couple of turns. Keep up the good work."

Win at Biz Scorecard

Effective training includes observing the new hire doing the steps properly. Always use encouraging language and demonstrate the corrective actions.

Encourage Me: Building Success and Self-Esteem

Think of training as a three-part task: it transfers knowledge, verifies retention, and encourages the employee. These three parts should happen together all the time, but often managers neglect the third step. Your overriding goal is to develop confidence and self-esteem. During this step it is important to let the employee practice on his or her own, without management supervision. The employee should use this time to focus on delivering outcomes. That is why the previous steps become so important, as they are the groundwork for your entire training program.

During this step the trainer should periodically verify the employee's outcomes, and at those times, give encouraging corrective recommendations until the outcomes are acceptable.

At this point in the training it is still important to point out successes. Each time a trainee accomplishes a small goal, he or she experiences success; every successful experience is a motivator to build future performance. Note aloud when things are done correctly. Recognition of success makes the trainee want to improve and tap into his or her full potential.

Also, praise the trainee every time you see improvement; personalized encouragement provides the energy to continue when he or she makes mistakes. Always remember the overriding goal is to build confidence and self-esteem.

Win at Biz Scorecard

You must continue to verify outcomes, deliver encouragement and point out successes.

Empower Me: Give the Employee the Freedom of Creative Choice

Once the new hire has mastered the training, it becomes important for management to focus on just the outcomes—not the steps.

Employees are in a good position to find new, productive ways to do their jobs, since they do them every day. Empower your employees by letting them use personal creativity to discover their own best way to deliver outcomes. Encourage them to improve their process; it is this freedom of choice that develops happy, productive employees.

To build a positive atmosphere of employee empowerment, management must maintain open communication. Without the freedom of communication between management, supervisors, and subordinates concerning new goals, problems, and changes, employees won't have an opportunity to express their ideas and solutions. Nothing nullifies empowerment faster than losing one's freedom to express ideas and solutions.

Successful managers also understand that maintaining productivity over a long period of time requires not only the rewards of empowerment, but also continued coaching and the implementation of a well-thought-out motivational plan. Book 7 of the Win at Biz series, *Motivate Your Employees*, will provide the means to develop these valuable skills.

Win at Biz Scorecard

Once the new hire has completed training, remember to focus your management on the outcomes and empower the employee to use independent thinking to improve the steps of the job.

Win at Biz Checklist

✔ Have you developed a written training program for each position that can be utilized as a business process by your personnel managers to develop consistency of quality and production for each new hire?	☐ Yes	☐ No
✔ Do you train for responsibility of outcomes?	☐ Yes	☐ No
✔ Does the employee understand what the company does for business, what the company must accomplish in order to be profitable and how the outcomes required for his or her position affects the company's bottom line?	☐ Yes	☐ No
✔ Are the steps of the job and the proper use of the tools used to perform the job properly explained?	☐ Yes	☐ No
✔ Are the steps of the job demonstrated as the "proven best way?" Does the employee understand why each step is done that way?	☐ Yes	☐ No
✔ Has the employee witnessed the proper completion of the job as well as the required outcomes?	☐ Yes	☐ No
✔ Does the trainer utilize language that is encouraging and constructive when knowledge is being transferred during the training process?	☐ Yes	☐ No
✔ Have you verified that the trainee can complete the tasks and deliver the required outcomes?	☐ Yes	☐ No
✔ Once the training is completed do your supervisors empower the employees by letting them find their own best way to deliver the outcomes?	☐ Yes	☐ No
✔ Does the trainer understand the core of the training program is centered around building successful steps, confidence, and self-esteem?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✓ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Motivate Your Employees

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

MOTIVATE YOUR EMPLOYEES

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

Introduction

What motivates individuals? If everyone were motivated by the same incentives, you could be sure that your employees would always act in the interests of the company's profitability and growth.

To develop effective motivational strategies, you must know what you want people to achieve—and then decide how to motivate them. After all, productive actions lead to profitability and growth; and without profitability and growth, none of the other benefits that a company can provide to its customers and employees are possible. Will healthcare, four weeks' paid vacation, and a four-day workweek motivate people to be productive? Probably not. Will a profit performance bonus motivate a person to create profitable growth? Maybe. Will a person work productively day after day if he or she does not enjoy their job? Will employees be committed to working towards company goals that do not align with their personal motives?

To keep people motivated, maintain high morale, and guarantee peak productivity toward common goals, you must be knowledgeable about the motivational aspects of human behavior. Different benefits motivate different people. Only by tapping the power of motivational management can you truly ensure that your employees will consistently create profit and growth for the company.

Build the Right Team with the Right People

Successful managers know that you first have to hire the right people, and then be a pro at seeing inside each person on the team, without personal bias. You have to be able to recognize individual differences, determine each person's unique buttons, and motivate them to produce and perform. Superior performance only happens when you correctly identify an individual's talents, and match them to the job.

In Book 5 of the Win at Biz series, *Hire the Right People,* we talked about how every person has unique talents. These talents are what the individual is "wired" to do and enjoys doing over and over again. When a person is using his or her talents, he or she will experience the most satisfying feelings of gratification and accomplishment. When people enjoy what they are doing, they will put more energy into it, and perform at a higher level. When a person's talents do not align with the job, satisfaction is impossible, and productivity will decline.

Be assured that hiring mistakes will occur, and people will end up in mismatched roles. It is the successful manager's job to recognize when this happens, and attempt to find a new position that is better matched to the person's talents. Remember, you cannot transform people; you cannot teach talents. Successful managers do not waste their time on people's weaknesses, people that are in mismatched positions, or people that are low producers. Successful managers spend the most time on their most productive people because those are the people who have the talents to multiply the company's performance.

Successful managers will know what to look for. Think about the people you have managed whose talents have been well aligned with the talents required for the position. They were, no doubt, self-motivated, quick learners, and productive, happy employees. Now think about the employees you have managed who struggled because their talents lay elsewhere. They have trouble learning new tasks, lack confidence, need more supervision, and produce less. A successful manager is quick to recognize when an employee is in a mismatched role and moves that person out of that position.

To manage and motivate for maximum long-term performance requires continuous individual evaluation. Keep performance evaluation records up to date for every employee. It becomes much easier to single out unproductive employees when you have the ability to review up-to-date evaluation reports.

Once you have been successful at building the right team with the right people in the right positions, you will be ready to implement the appropriate motivational communications and motivational strategic programs discussed below.

Win at Biz Scorecard

- **Do you define the talents required of a position to enable you to hire the right people to build a happy, productive team?**
- **Do you spend most of your time managing your most productive people?**
- **Do you keep evaluation reports on each employee?**
- **Do you recognize the people that are placed in positions where their talents do not match up and take action to move them?**

The Power of Recognition

Mark Twain said it perfectly: “I can live for two weeks on a good compliment.” Successful managers, too, understand the power of recognition. Research has proven that personalized, instant recognition directly from a supervisor is a meaningful form of motivation. People need to feel important and what better way to achieve that objective than to develop a consistent recognition program. The best personal praise is frequent, timely, sincere and specific. Nothing beats a simple daily recognition program that builds a positive foundation of goodwill between management and the employees.

To get the greatest effect, vary the following methods of delivering praise:

- Delivering praise personally, face-to-face;
- Using handwritten notes with a thoughtful word of praise;
- Sending an electronic message containing praise;
- Delivering praise to an employee or group of employees publicly.

Why would management *not* use recognition as a motivational tool? Doesn't everyone appreciate recognition for a job well done? As Rosabeth Moss Kanter says, "Recognition is so easy to do and so easy to distribute that there is simply no excuse for not doing it."

Personal praise is but one form of recognition. In the book, *1001 Ways To Reward Employees*, by Dr. Bob Nelson, you can read case studies from several companies that use both intangible and tangible forms of recognition effectively. In my experience, the intangible forms of recognition that employees value most are the rights to exercise their creativity and express their ideas. The opportunity to be heard and have management listen says to them, "I appreciate you and I value your ideas." Another one is when managers take time out of their schedules to teach an employee new knowledge or skills that are deemed valuable. Special job assignments—ones that the employee desires—as well as time off or flexible hours can also be valuable methods of recognition. In developing your various forms of recognition, you should always assume that each and every person wants to do a better job and grow.

The more obvious forms of recognition are tangible—trophies, plaques, awards, cash, or cash substitutes such as gift certificates. Gift certificates that are accompanied by a handwritten thank you note can be a rewarding, personalized touch. Trophies, plaques, and awards offer a lasting, residual benefit compared to cash or cash equivalents and, of course, carry the pride of tangible recognition. Trophy-type awards should always be given publicly.

Do not forget to use the power of recognition to improve the performance of employees in the areas of sales, customer service, generating ideas, improving quality, or increasing production. When you are deciding upon the best forms of recognition for your company or employee, or to serve as an incentive to meet a certain goal, consider this statement by Arthur Pell: "You can't know employees as individuals until you're willing to put in the time to talk to them. And you have to talk to them to know what motivates them."

Win at Biz Scorecard

- **Do you talk to your employees to find out what motivates them?**
- **Do you have a well-established recognition program in place?**

Spread Enthusiasm, Spread Motivation

Your moods affect your employees. Productivity and enthusiasm go hand-in-hand, so be aware that your enthusiasm—or lack of it—can have a direct effect on the bottom line.

Leaders who don't transfer enthusiastic feelings will not motivate their followers. The tone of your voice, facial expression, and your body language all matter. Just think about the last time you worked with a salesperson who was less than enthusiastic about the product he was selling. No doubt his or her lack of enthusiasm was transferred to you and you made a purchasing decision accordingly.

Likewise, enthusiasm is contagious; successful leaders can use it as an effective motivational tool.

Win at Biz Scorecard

Do you and your managers use enthusiasm as an effective motivational tool?

The Motivational Meeting

Successful motivational managers use positive performance language. Always remember that language affects thinking, and thinking affects behavior. As Dale Carnegie points out in his classic book, *How to Win Friends and Influence People,* every act a person performs is due to either something that is important to them or something they want. It is the successful manager's job to uncover what each individual wants and to properly explain how they can obtain it while achieving desired outcomes for the company.

Preparation is the key to a strong motivational meeting. Successful motivational managers must take the time to prepare a list of powerful questions to uncover employees' wants. Remember, your goal is to encourage the employee to set their own goals and discover their own better path. Start by making a list of good questions. Here are some examples:

- Where do you want to be in one, three, and five years?
- What are your long-term and short-term financial goals?
- What are your advancement goals?
- What areas do you want to improve personally?
- Do you enjoy their work?
- What is important to you in the workplace?
- What frustrations are you encountering?
- What new knowledge do you need to improve performance?
- What new tools do you need to improve performance?
- How can your coworkers help you improve performance?
- What ideas do you have for raising the bar on outcomes you can control?
- How can you improve your path for achieving the improved outcomes?

It is important that you use language that makes them feel important. Take every opportunity to offer sincere compliments and praise. Support them in accomplishing the goals and expectations they have set for themselves by giving them both verbal support and making sure they have the proper tools to perform. Show each person respect and give each one a reputation of performance to live up to. Remember, using the correct motivational language and listening skills discussed in Book 9 of the Win at Biz series, *Develop Effective Speaking and Listening Skills*, is integral to achieving the desired results.

When in doubt, remember that a good conversation focuses on what an employee wants and how to get it. Ask a lot of questions, and focus on listening. Seen to gain an understanding of their beliefs and their point of view. It is only then can you begin to help him or her achieve a goal. Start the meeting with sincere praise and appreciation of their work and contribution to the company, and then focus the balance of your efforts on listening to the answers to your prepared questions. Follow up each answer with more questions to gain a thorough understanding of the employee's message. Take notes to demonstrate to the employee that you care what he is saying. Your goal is for the meeting to be a positive, encouraging experience for the employee.

Conducting several of these private, motivational meetings will take an abundance of time by the manager and, therefore, will require a real commitment by management.

Win at Biz Scorecard

- **Do you use encouraging motivational language?**
- **Do you focus on preparing questions to uncover what the employees want and what their viewpoints are; then show them how to get what they want?**
- **Do you give them the necessary support to help them accomplish their goals?**
- **Do you praise them often?**

Address Unspoken Needs

It is also important for the successful manager to address the unspoken needs of the newer employee as he or she progresses through the first year of his or her employment. Once an individual has learned the steps of the job and is delivering satisfactory outcomes, he or she will start to have many of the following thoughts:

- I wonder what management thinks about my work?
- Does management value me as an employee and as a person?
- Does management value my opinions?
- Do I feel important because I believe in the service the company provides?
- Do I feel my job is contributing to a successful end result for the company?
- Are my coworkers committed to the company's mission and doing quality work?

- Will this position allow and will management help me to develop my talents, skills, experiences, and knowledge?
- Am I being challenged to create new ideas and be innovative?

Successful managers know that these thoughts are on the minds of new hires. The answer to each of these questions satisfies a need—for reinforcement, reassurance, encouragement, and motivation. Satisfying these needs will require the manager to prepare a list of questions and answers that can be communicated in informal meetings.

These questions are natural, and they need answering. When the need for feedback goes unfulfilled, quality people will leave. The company will suffer a productivity loss after investing a substantial amount of time and money into their training. Companies lose good, productive employees everyday because the employee's needs were not being fulfilled. More often than not, the departing employee would have stayed if management would have done a better job communicating with the employee regarding his or her needs, goals and employment objectives.

Beyond satisfying employees' basic needs, motivational management also requires developing a yet-higher level of education, planning, and thinking. That is the subject of our next section.

Win at Biz Scorecard

- **Do you meet with employees often to uncover their inner needs?**
- **Do you, as a company, attempt to fulfill each employee's inner needs?**

Motivation: Education, Empowerment, Targets, Rewards, and Information

Motivation that endures does not come from short-term external incentives. The strongest form of motivation is self-motivation, and comes from within.

As we discussed earlier, aligning a person's talents with the job is the best place to start. When you educate people about business, you raise awareness and align the employees' perceived benefits with company goals. When people can see real personal benefits that derive from their own actions, they will develop an inner motivation that will create enthusiasm over the long term.

The goal is to develop energy in people to think more like owners. Imagine the level of performance that could be achieved if everyone in the company were challenged to widen their perspective to that of a company owner? I encourage you to read *The Great Game of Business*, by Jack Stack, which introduces a wealth of ideas on how to motivate people to this higher level of thinking and action. Think about it! If you do not offer an education in business strategy that motivates people to soar up to their highest level of thinking, you will not get their highest level of thinking. And if a business strategy education can elevate productivity among the bottom-level employees, it is going to elevate the top employees', as well. Just think how powerful a company of motivated employees would be, all working toward the same strategic goals.

As Stack suggests, in order to widen people's business perspective, you need to teach them the game of business. If your people don't understand how the game of business is played, they will not have (or develop) the knowledge to make decisions. And if you motivate people to think strategically, you can empower them and involve them in decision-making processes.

Remember, giving people automatic raises and automatic year-end bonuses will not increase performance or widen perspectives; free giveaway programs have destroyed many companies. When everyone understands how to play the game of business and they have a vested financial interest in the outcome, they learn how to earn their raises. The most productive way to run a business is to share financial success and give everyone a piece of the financial outcome.

This philosophy gives employees an attitude of ownership. An attitude of ownership gives them the rewarding feelings that everyone needs, especially when they understand that they are contributing to the success of the company and making a difference. Giving people the knowledge and understanding of how to play the game allows them to motivate themselves and create a desire to win.

Successfully motivating people from various departments (sales, production, office, delivery, etc.) to work toward common goals such as increased sales, growth targets, expense budgets, and company profits will be a challenge. In order to be successful, you will need to educate your employees, empower them by getting as many employees as possible involved in the planning process, develop a set of financial numbers as targets, develop a reward program that ties into the target numbers, and establish communication standards that keep everyone well informed.

Step 1: Education

Keeping people in the dark accomplishes nothing. The more information you share with people, the more successful they will be, and the more successful your company will be.

Since the game of business is all about numbers, one of the things your education has to include is basic accounting. If people do not understand the numbers, they will not care about them and they will certainly not be motivated to act to improve them.

Start with teaching people the basics of a profit and loss statement, gross margins, and the difference between variable and fixed expenses. Teach them about the balance sheet items they can affect and how changes in accounts like short-term debt and accounts receivable can affect financial performance. Educate people about what the company does to generate income. Include what key actions have to happen for the company to be profitable in selling and delivering the product or services. Help them see how their personal role fits into that larger picture of the company and how their personal actions affect the desired company outcomes. What does it mean for them to be personally successful in their role?

To be effective, most of this information has to be explained using numbers. If you have never sat down with an employee and explained to them the numbers on your financial statement and how his actions affect these numbers, you have never witnessed a light-bulb moment. Employees will never really get it until you have educated them on your financial statements and they truly understand what actions they have to take to create bottom line growth.

Win at Biz Scorecard

Do you elevate your employees' thinking by educating them on the numbers and how they can affect them?

Step 2: Empowerment through Involvement

It is important to empower employees by placing responsibility and ownership back into their hands. The workers will adopt an ownership attitude when you use monthly meetings for dispensing information and allowing the employees to be part of the planning process.

Remember, you will be more successful motivating people to work toward common financial targets when the goals are their own ideas. Let them decide what paths will improve production and by how much they can increase it. Let them decide how much they can increase sales or gross margins and where to set the next quarter's targets for bonuses. Let them set the budgets for the expense accounts. Let the employees correct problems that affect customer satisfaction and profitability. Consider implementing Six Sigma as a business process, as discussed in Book 4 of the Win at Biz Series, *Develop Efficient Business Processes*). (Six Sigma is a process that engages the employees to improve the efficiencies of all their business processes to achieve complete customer satisfaction and maximum profitability.)

It is this freedom of creative thought, sense of responsibility, and empowerment that generates rewarding feelings and superior performance. Once you empower people by putting decisions, financial responsibility, and accountability into their hands, you will create a winning attitude.

Win at Biz Scorecard

Do you create an atmosphere of ownership by placing planning and decision-making responsibility with the employees?

Step 3: Targets

Every company has a critical number that must be met to ensure a profit. Determine yours. For example, if you are a production-based company, maybe it's the number of widgets every person on the production line needs to assemble in an eight-hour shift. For a service business, maybe it's the amount of billable revenue every truck in the fleet needs to produce every day, or the number of billable hours tallied each day for an accounting or law firm. Or perhaps for the direct marketing department of a mortgage company or real estate brokerage firm, the critical number is the number of leads generated every week. For a retail business it may be a monthly sales target at a specific gross profit percentage. Every individual in the company needs to understand the critical number, why it is important to the company, and how he or she affects that number.

Once the company knows its target, the individual needs one, too. Whenever it is possible to calculate such a number, each person needs some type of target number that measures his or her personal performance and how that number contributes to the company's targets. The target number should be easy to understand, even though it will vary with different departments. The sales department will obviously have different target numbers from the production department's. The employee needs to understand the importance of how that number affects the company's profitability, how to achieve the target number, and be in control of production outcomes that account for achieving it.

As an example, in a parcel delivery branch, let's assume they operate twenty service vehicles. We will assume a revenue target of $1,000,000; at that amount of revenue lets assume they can cover all of their expenses and realize a seven percent net operating profit. One million dollars divided by twenty service vehicles equals $50,000. Fifty thousand dollars in revenue per service vehicle divided by 52 weeks equals $960. In this example, each delivery service person will have a target number of $960 of billable revenue to produce each week.

It is important to meet with each employee in private at least once every quarter to review personal performance. It helps to be able to measure as many job-related outcomes as possible. Incorporate the best outcomes delivered by your best employees for any particular job as the standard goal for everyone. By adopting the best-measured outcomes as the standard, it raises the bar for everyone in that same position to a realistic but challenging goal. As always, be sure to let the meeting elicit creative thinking by the employee so it is a rewarding experience, one of self-learning and self-discovery. Personalized meetings are also an excellent opportunity to offer coaching—often an employee needs help being successful at accomplishing his or her goals. Celebrate every personal best with them and hand out plenty of positive recognition. Always remember that people will stop caring when their accomplishments are ignored.

Finally, unite the company and individual targets for everyone to see. Can you imagine what happens to the level of thinking when an employee is given a target number to achieve and he understands both what the number means and how his actions affect the company's financial targets? Imagine the impact on thinking and actions when the employee understands that by achieving individual numbers, he or she is positively affecting the success of the company. When a person is in control of achieving the number and is financially rewarded for desired results, he or she will care more and be self-motivated to achieve a higher level of performance.

Win at Biz Scorecard

- **What is your company's critical number?**
- **Do you raise the level of thinking and productivity by establishing target number of achievement whenever it is possible?**
- **Do your employees understand how the target number affects profitability, and do they have control over achieving it?**

Step 4: Rewards

In order for financial incentives to be effective motivation, they must be structured properly. These seven guidelines will help you establishing a profitable financial rewards program.

1. Bonuses should be paid as a percentage of an employee's salary. Paying bonuses as a percentage rather than a flat amount pays people according to their financial importance to the company.
2. Tie bonuses to performance. Factor in the standard target numbers, individual targets, and growth of company profits.
3. The bonus percentage to be paid on the employee's salary must be predetermined. In order for the program to be effective, the target numbers and bonus percentage payout need to be specific and established at the outset of the program. There can never be any secrets or year-end gifts.
4. Rather than having one target goal, there should be a range of target goals. Each target should have a corresponding bonus percentage to be applied to the employee's salary. Obviously, the bigger the target goal achieved, the higher the bonus percentage payout.
5. Everyone must understand the bonus payout program and be able to successfully evaluate what is in it for them. Remember, the real world of supply and demand economics only financially rewards people for financial results, not effort. Profit growth is the only number that counts in the real world of business. Without it, there cannot be any bonus program that is economical for company.
6. Bonuses are more effective if you pay them out more often. Quarterly is just about right. If employees do not see the positive or negative financial results of their actions at least every three months, they will lose interest, and motivation efforts will fail.

7. In order to build a company that has the power and dynamic of a group of owners, it is best if everyone in the company participates in some type of bonus program.

There are many creative variations on these financial incentive programs. The good ones expand employees' perspective and productivity together. For instance, employer contributions to a 401(k) plan may be used as a reward system. Many companies establish one set of financial targets and bonus payouts for their key employees or managers while motivating the other employees with financial incentives tied to their standard individual numbers.

For many companies, an ESOP (employee stock ownership plan) may be a good way to offer incentives that get employees thinking like owners. ESOPs are most commonly used by owners of closely held corporations who wish to create a market among employees for shares of the company. ESOP plans offer opportunities for tax-free financing to fund the purchase of the owner's stock. The plans decrease the employees' tax liability and increase cash flow for the company, allowing it to acquire new assets or reduce debt. ESOPs also make great rewards when you give company stock to employees as part of a tax-deferred retirement benefit. Consult your attorney to see if an ESOP is a good choice for your company and employees.

Win at Biz Scorecard

Do you have an effective bonus program with specific financial targets in place that motivates everyone in the company towards common goals?

Step 5: Information

People need to know how the company is doing financially. Are the critical numbers being met? Is the company hitting its target profits? Supply continuing education about how to evaluate the numbers and how they affect employees—it is imperative.

Employees should keep their own scorecards to keep track of how they are doing relative to achieving their own standard targets. Employees will always be more focused on what is in it for them; therefore, they need to know how they are doing on the performance scale for quarterly bonuses. The goal is to share information with the employees as often as possible. You cannot motivate people to perform if you keep them in the dark. To be motivated to win, employees have to be well informed.

Win at Biz Scorecard

Do you keep employees well informed on a monthly basis?

In conclusion, a company of people educated about the numbers, who are part of the planning and decision-making process to establish specific targets, who are kept informed on a monthly basis and are rewarded financially for achieving profit targets, will work as a team toward motivating profit.

Win at Biz Checklist

✔ Do you build a team of people who posses the right talents for each position and enjoy what they are doing more than anything else?	☐ Yes	☐ No
✔ Do you determine which people do not possess the right talents for a role and move them to another position where their talents are better matched or move them out completely?	☐ Yes	☐ No
✔ Do you praise your employees often and utilize recognition programs to motivate them?	☐ Yes	☐ No
✔ Do you create an enthusiastic and fun work environment?	☐ Yes	☐ No
✔ Do you use positive motivational language skills every time you speak to an employee?	☐ Yes	☐ No
✔ Do you hold personalized coaching meetings, allowing the individual to experience self-discovery by encouraging learning and creative thought?	☐ Yes	☐ No
✔ Do you satisfy the inner needs and unasked questions that arise in employees?	☐ Yes	☐ No
✔ Have you educated your employees about the critical numbers that drive the success of the financial statements?	☐ Yes	☐ No
✔ Have you determined your company's critical number?	☐ Yes	☐ No
✔ Do employees and departments have target numbers for profitability of billable hours?	☐ Yes	☐ No
✔ Have you established specific bonus payouts tied to achieving specific target numbers? Do all the employees understand the program?	☐ Yes	☐ No
✔ Do you meet monthly to keep people informed relative to progress toward the target numbers?	☐ Yes	☐ No
✔ Do you empower your people by getting them involved in the planning and decision making process regarding new financial targets and other factors that affect profitability?	☐ Yes	☐ No

About the Author
David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Build a Successful Sales Organization

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

BUILD A SUCCESSFUL SALES ORGANIZATION

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

BUILD A SUCCESSFUL SALES ORGANIZATION

Introduction

Think about the time and money you put into all the different aspects of your business. To be successful, you invest in a good real estate location, marketing, developing your product or service, its presentation to an audience; you invest in merchandising the price points, and in hiring and training all the support people. For many businesses, the success of all these efforts and investments rests with the quality and effectiveness of the salespeople employed to generate revenue.

Who do you trust to sell your product or service? Who in your company is responsible for its bottom line? Many business owners make the costly mistake of turning revenue potential over to people who do not have the talents, sales skills, or training to maximize the company's revenue. What about you—have you entrusted the revenue potential of your business to professional salespeople or to hourly-wage sales clerks?

Do not kid yourself; professional salespeople generate substantially more revenue. To understand how much money a mediocre sales staff can lose, all you have to do is compare the sales numbers among employees in any aggressive sales department. In every situation, whether a company employs three or forty professional salespeople, you will find a few outstanding performers, a large group with middling performance, and another group clustered at the bottom. It is simple to conclude that each salesperson except the top revenue performers is costing the company revenue.

So, how much revenue are you losing if you do not employ a competitive sales staff? This e-book is intended to illustrate how skills and knowledge differ between professionals who treat selling as their career and those individuals who do not. We will also describe the development of the necessary training and support required to build a successful sales team.

15 Abilities of a True Salesperson

1. Professional salespeople possess the human *talents* that are necessary to be outstanding. Typically, outstanding salespeople will receive an emotional high every time they make a sale and, as a result, possess the determination to do whatever it takes to experience that emotional high again and again.
2. Professional salespeople possess the *skills and determination* to develop their own leads rather than waiting for leads to be handed to them.
3. Professional salespeople are skilled at developing a personal connection in the first few minutes and are pros at *quick relationship-building*.
4. Professional salespeople know how to *ask the right questions* to uncover the wants and needs of their prospects.
5. Professional salespeople have *superior product knowledge* because they are willing to invest their time to learn everything there is to know about the product or service.

6. Professional salespeople know how to educate prospects about the services or products, *creating the trust and confidence* necessary for a prospect to make a purchase.
7. Professional salespeople can identify the benefits from the features of the product or service and understand the importance of *selling the benefits*.
8. Professional salespeople know how to improve communication by employing outstanding *listening skills*.
9. Professional salespeople *possess empathy* to detect subtle emotional responses from the prospect.
10. Professional salespeople know how to ask the right questions to *uncover the hidden objections* the prospect does not willingly reveal.
11. Professional salespeople have the *correct answers* to satisfactorily overcome the objections in the prospect's mind.
12. Professional salespeople continue to *trial close* by confirming with the prospect that the objection has been satisfied before moving forward with the sale process.
13. Professional salespeople are persistent in *following up* with the prospect until the sale is closed.
14. Professional salespeople know the appropriate time to *close the sale*.
15. The professional salesperson *adds value* to the company by servicing its customers more knowledgeably and professionally.

Win at Biz Scorecard

If you are entrusting the future revenue growth of your company to sales clerks rather than professional salespeople, you are shortchanging the revenue potential and prosperity of your company.

Invest in Your Sales Force

Assuming you have hired people with a talent in sales, it is vital that you provide an excellent training program and the tools that they will need to succeed. Can you really expect salespeople to excel if they are not given adequate training about the product or service they're to sell? All new hires should not only be thoroughly taught about the product but also provided with sales training specific to the product or service. If your product and sales training is going to become a productive operating system, it must be a formalized written comprehensive program.

As with any training program, the successful transfer of product knowledge needs to be verified by the manager doing the teaching. In order for sales training to be effective, the final test of knowledge and retention will be role-playing various sales situations. Even salespeople possessing the best sales skills will benefit from learning the questions, objections, and answers specific to your business and product. Role-playing is a great teaching tool for reviewing specific sales situations; it is also a valuable method for verifying the successful transfer of knowledge.

Win at Biz Scorecard

- **Do you have an ongoing sales training program?**
- **Do you role-play to improve skills?**

As is true with every employee, in order for salespeople to achieve maximum productivity, they need the proper tools. The "proper tools" will vary from business to business, however, the list could possibly include the following.

- A sufficient work area with a private desk, phone, and computer;
- Personalized voicemail and e-mail accounts;
- Personalized business cards and form letters;
- Professional point-of-sale literature;
- Professional and effective catalogs and/or websites to supply supplemental information to the prospect;
- Props to conduct effective demonstrations;
- Current pricing and delivery information;
- Updated product information as well as updated information about competitors' products and services.

Win at Biz Scorecard

- **Have you made a list of all of the tools your salespeople need in order to perform at peak productivity?**
- **Do you keep them abreast of accurate and updated information?**
- **Are your sales tools better than the competition's?**

Developing Your Sales Training Program

Can you afford to spend money on advertising and develop prospects, yet not convert a high percentage of those prospects into sales? Probably not for long. In order to build a profitable business, you will need to implement an effective sales training program that converts those prospects into sales.

A business cannot afford to spend money on empty advertising. The antidote is a continuous and effective sales training program. The *Sales Bible*, by Jeffery Gitomer, offers some excellent strategies and ideas, many of which are glossed in this e-book. The following sales steps offer guidelines to help you develop or improve your sales training program.

The following are the 11 pillars of an effective sales training curriculum, and include the preparation, skills, and communications you will want every person on your sales team to execute effectively. Use the following information and examples to develop your customized sales training program in the action-oriented workbook at the end of this e-book.

Skill 1: Develop Your Own Mini-Commercial to Use When You Network

Imagine you are attending your local Chamber of Commerce meeting and someone asks you, “What do you do?” Do you have a concise, effective mini-commercial ready to deliver?

It is best if your mini-commercial can effectively explain your main benefit. For example, let’s say you own a collection firm. If your answer is, “We collect bad debts,” you are not selling. Your reply should be, “My name is Bob Jones and our company is Cash Recovery Systems. We monitor company’s accounts receivable to shorten the number of days receivables are outstanding, increase cash balances and net profit.”

Once you have their attention, ask open-ended questions to give you more information on his or her company’s needs. It would be pointless to talk aimlessly until you know how you can be of help. Think in terms of formulating questions to uncover the type of information you will need. The following are some examples of how to choose your next question.

- What do you look for...?
- What have you found...?
- How do you propose to...?
- What has been your experience with...?
- How have you successfully...?
- How do you determine...?
- What is the one thing you would like to improve about...?
- What is the one thing you would like to change about...?
- What does your current provider do about...?
- How are you currently...?
- What are you doing to keep...?

For example, to continue the dialogue above you could ask, “What is the average number of days your company carries a receivable? “What have you found to be the best strategy to keep the average holding period of your receivables to a minimum?”

Once you have collected the information you desire, respond with a statement illustrating how your company can be of assistance. Next, you will want to follow up with a call to action by suggesting a meeting to further assess the company’s needs. Continue to stress the ultimate goal of increasing cash and profitability. Remember to always stay focused on the prospect’s needs and the benefits to them for continuing the conversation.

Skill 2: Be Prepared

Your preparation and product knowledge are essential to successful results. It is difficult to build confidence in a buyer when the salesperson is unorganized and not well informed about the product he or she is selling. To be successful requires doing your homework.

- Have all of your sales tools ready and organized.
- Thoroughly know all the features and benefits of your product.
- Have your answers to the most common buyer questions prepared.
- Have your questions to uncover buyer needs prepared.
- Have your questions to uncover objections and the replies well-prepared.

Skill 3: Qualify the Buyer

Very early in the sales process, you need to qualify the person with whom you are speaking to confirm that he or she is the decision-maker. This can be accomplished by immediately asking a few simple questions.

For example, "Is there anyone else who we will need to get involved with sharing the information to make the purchasing decision?" Make it a habit to ask questions to uncover the real decision-maker early in the sales process.

Skill 4: Build a Relationship

If you want to sell more, make more friends! The bottom line is that people prefer to buy from a friend. They prefer to buy from someone they trust and believe cares about their best interests.

To develop a meaningful relationship will require an investment of time—time to share experiences and create memories. It is true that in many sales situations it is impossible to devote the time to creating meaningful relationships; however, you can ask personal questions to show you care about the prospect as a person. Try to develop a quick conversation around a common point of interest; build further rapport with the use of humor. Remember, people buy from people they like.

Skill 5: Understand the Customer's Needs

The most important sales function to learn is how to ask the right questions. A good salesperson uncovers the prospect's real needs and is capable of focused listening. Too many salespeople make assumptions about customer needs and spend too much time talking about irrelevant features of the product or service. Your goal should be to *not talk*, not until you have composed a response that expresses benefits addressing the customer's needs, based on a single, quality, fact-finding question. The following are goals for developing quality questions.

1. Does the question make the customer think before responding?
2. Does the question force the prospect to analyze new information?
3. Does the question force the prospect to consider a new way of thinking?
4. Does the question address a specific concern of the person or business?
5. Does the question uncover information from the prospect that will bring you closer to closing the sale?
6. Do you ask another question to answer a prospect's question?

The questions you ask will be more effective if you set them up properly. For example, first make a factual statement; second make a statement that relates your experience, and then ask your open-ended question. Imagine you are selling a leather sofa. Here is an example of setting up a question that will get you closer to the close.

- Factual statement: "We have two types of construction, a continuous zigger wire construction with a poplar frame that looks like this (demo construction from sample) or an eight-way hand-tied coil spring construction with a hardwood maple frame which will cost about $500 more and looks like this (demo construction from sample.)"
- Statement of experience: "I have witnessed thousands of both types of construction under use and there is no doubt that you will get more years of use out of the eight-way hand-tied construction."
- Open-ended question: "Which type of construction would you prefer?

As you develop your questions, think in terms of developing them in a series of questions to uncover information as well as the prospect's needs and concerns. If the questions are crafted properly they will lead the prospect to the close. For example, if you were selling a lawn maintenance service you could start by asking the following.

- Question 1: "What criteria do you use to select a lawn care company?"
- Prospect answer: "Quality, service, and price."
- Question 2: "How do you define quality and service?"
- Prospect answer: "I define quality as having no clover in the lawn; good service means you have someone to answer the phone who can give me an immediate answer to my questions."

- Question 3: “We do not believe in voicemail. We have qualified customer service people who can answer your questions immediately. If we can guarantee to get your clover under control, would you consider us for your lawn maintenance company?”

Question number three about the clover is a feedback question that has been formulated from information collected from an earlier question. A series of questions which are composed properly will lead the prospect to closing questions or force the prospect to divulge objections. The following are examples of lead-ins to help you create effective questions:

- What do you look for...?
- What have you found...?
- What has been your experience with...?
- How do you determine...?
- What is the one thing you would like to change about...?
- What does your current provider do about...?
- How are you currently...?

Skill 6: Establish Confidence

Would you buy a product or service if you lacked confidence in the salesperson or company? Of course not. Likewise, you cannot expect to make a sale if you cannot build confidence with a prospect.

The following are ideas for building confidence in your prospects.

1. It should go without saying you must be knowledgeable and completely prepared.
2. Convey complete confidence.
3. Use professionally written sales aides that build authenticity.
4. Offer proof of satisfied customers by providing written testimonials.
5. Convey success stories of service delivered after the sale.
6. Be sincere; focus on educating the prospect, being helpful, and satisfying the prospect’s needs rather than on closing the sale.
7. Look professional and create a positive impression.
8. Demonstrate your conviction and enthusiasm for the product and the company.
9. Practice to impress. You must stand out against the competition; you must wow them.

Skill 7: Sell Benefits

What does the customer really want? What is important to him or her? What will the product or service do for the customer? Typically people buy for the following reasons.

- They want to save time.
- They seek a desired status.
- They want life to be easier.
- They want life to be more comfortable.
- They want to be more successful.
- They want to feel safer.

Once you have identified your most important benefits, build your sale around them rather than the features of the product or service. Features are the nuts and bolts that make up a product or service; however, features do not make sales. Benefits do.

Skill 8: Uncovering Objections

What is the real reason people are not ready to buy now? It is your job as a salesperson to uncover the reason. To accomplish the challenge of finding out why the prospect is not ready to buy will require skills to uncover the real objection.

Prospects will not typically disclose the real reason they are not ready to make a purchase but instead will offer excuses or stalls. Some of your typical stalls are as follows:

- I want to think about it.
- I have to talk it over with my wife or supervisor.
- I can't afford it at the moment.
- I'll call you in a couple weeks.
- I am too busy right now to make a decision.
- Another department has to be involved in the decision.
- The price is too high.

Real objections sound something like this:

- I don't have the authority to buy it without another person's permission.
- I have another product or service in mind.
- I think I knows I can get a better price elsewhere.
- I have a relative or friend in the business that I want to check out.
- I do not have confidence in you, the company, and/or the product.
- I do not have confidence in my understanding of benefits of the product.

As a salesperson you should welcome objections. It is a signal the prospect is interested. Usually objections are raised either because the prospect has made a firm decision not to buy your product or he has unanswered questions needing more information and clarification before he can confidently make the right decision. No one wants to make a purchasing mistake.

The professional salesperson's job is to be prepared with the right questions to uncover the objections and the solutions to overcome them. The following offer some ideas how to uncover the real objection and offer a solution to overcome it.

1. Listen to the objection and determine whether it is a stall or a real objection.
2. Regardless of your interpretation, agree with the prospect.
3. If you believe his statement to be a stall, you will need to press on to uncover the real objection. For example, if the prospect says, "I would like to think about it for a day or so," you can respond, "You are telling me you want to think about something and I respect that, but I also think there is something else you are questioning or not comfortable with. Let me help you. What is troubling you?"
4. Once you have uncovered an objection, question the prospect to confirm whether there are any more objections. For example, "Are there any additional concerns you have about purchasing this product other than___________?"
5. Confirm the objections a second time with the prospect before continuing. For example, "Am I correct in assuming if it wasn't for ___________ and ___________ you would consider purchasing this product?"
6. Confirm that a solution to the objection will move you toward closing the sale. For example, "If I were able to *assure you*… or *prove to you*…. or *guarantee you*… that we will be able to ___________, would you consider doing business with our company?"
7. Proceed to convincingly offer solutions to satisfy the objections in the prospect's mind.
8. After selling your solutions, ask a trial closing question to confirm you have indeed satisfied the prospect's objections. For example, "Are you convinced beyond any doubt that we can ___________?"
9. Assuming you have solved the prospect's objection and he or she answered your trial closing question in the affirmative, proceed to ask a closing question in an assumption format. For example, "I can set up the delivery for next week. Is that soon enough?"

Skill 9: Preventing Objections

An important part of any sales preparation and sales training program is to be prepared to overcome objections. One of the most effective ways to accomplish this is by practicing objection-prevention during your sales training.

Start by identifying all of the most commonly used objections by your prospects and put them all in writing. Next prepare sample scripts to practice in your sales training role-playing scenarios. Make the objection-prevention scripts part of your routine sales presentation. Examples of lead-ins are as follows.

- "We value the feedback we get from our customers; in the past many of our customers voiced concerns about ___________. To alleviate these concern we initiated___________."
- "Our previous experience has shown us customers are concerned about ___________. Here is how we have solved those problems. ___________."
- "We used to believe the best way to ___________ but after listening to our customers now we ___________."

Skill 10: Listening for Buy Signals

During the steps of your sales dialogue it is important to watch and listen for buy signals. The following is a list of typical buy signals.

- Questions about availability, delivery, or payment options.
- Questions about the price of specific items.
- Questions about features of the product.
- Questions about quality experiences and warranties.
- Questions about specific company policies.
- Questions about optional products or services.
- Questions about previous customer experiences.
- Request to see a demonstration.
- Request to take samples or literature.
- Handling or testing of the product.

When customers ask a "buy signal" question, have a prepared list of questions to ask your prospect rather than directly answering your prospect's question. By deferring the answer for a moment with a question enables you to gather more valuable information and move the customer's decision-making process closer to making the final purchasing decision. For example:

- Do you have these in stock? "*When do you need it?*"
- Does this come in different colors? "*What color would you like?*"
- Can you deliver this next week? "*Do you need it next week?*"
- Does this have a warranty? "*What type of warranty would you like?"*

Once you detect buy signals, it is time to start closing. You can prepare for the steps of closing during the sales dialogue by composing a list of questions that require your prospect to make a decision. For example, “Do you like it in the blue or the red best?” or, “Will you need service this week or is next week soon enough?”

Skill 11: Following Up

When you realize that most sales are not made on the first contact, following up becomes a critical component to closing success. Persistence equals success. Follow-up calls give you valuable opportunities to strengthen relationships and both review and clarify information.

Every conversation offers an opportunity to gather more information about the prospect’s needs and which competitors he is considering. Follow-up calls are a great time to uncover additional objections, compare your benefits to a competitor’s, answer questions not addressed in the original sales presentation, and move closer to a purchasing decision.

To be efficient at the follow-up process, every professional salesperson needs an organized system for tracking prospects. Follow-up systems can be automated in a software program like Outlook or kept on a file card in a simplified one to thirty-one file. What’s important is that you have a follow-up system at all!

15 Common Sales Mistakes

1. Lack of sufficient prospecting.
2. Spending too much time with prospects who are not qualified candidates.
3. Failing to get prospects to reveal needs and budget up front.
4. Too much talking, too many statements, too few questions.
5. Pushing the product too soon, too much emphasis on pitching product knowledge.
6. Poor questioning to uncover prospect’s needs and hidden objections.
7. No emotional connection, lack of thoughtfulness or sincerity in prospect’s needs.
8. Focusing on price rather than benefits and value.
9. No memorable stories to support selling points.
10. No third-party endorsements to build confidence.
11. Lack of personal branding to differentiate the product from the competition’s.
12. Not asking for the order.
13. Relying too much on props and not making a personal connection.
14. Poor time management.
15. Not investing time in improving skills and treating the position as a profession.

Motivational Reward Programs

Professional salespeople thrive on the financial rewards of a commission. To provide the proper financial incentives, a salesperson has to derive at least 50 percent of his or her income from commissions on sales.

If that number seems startling, think of your salespeople as the engine that provides the revenue for your company. Companies that do not provide financial incentives to grow the company's revenue will certainly lose market share to their competitors. True professional salespeople will have enough confidence in their abilities that they will prefer heavily weighted commission programs. If your salespeople are not deriving at least 50 percent of their earnings from commission, you are losing business and should consider changing your sales-related compensation, and/or changing your sales staff.

When implementing financial incentive programs, choose ones that are flexible enough to attract the "heavy hitters." Remember, not all athletes or actors are paid the same. The salesperson possessing the talent to bring in BIG sales to the company will need to be compensated accordingly. When you create your financial incentives, remember to consider other types of motivational reward programs other than a direct commission on sales. Consider cash bonuses, gift certificates, or vacation destination trips. When offering a vacation getaway, consider including the family to add additional motivation from all the employee's family members. These types of awards offer a lasting residual benefit. Also consider trophies, plaques and awards that can be presented at a sales meeting to publicly recognize the individual's outstanding accomplishments.

Win at Biz Scorecard

If your salespeople's compensation does not include strong financial incentives tied directly to sales performance, it is a drag on the company's revenue growth.

Win at Biz Checklist

Do you search for the right talents to find and employ the best salespeople available?	☐ Yes	☐ No
Do you continually replace the bottom sales performers in an effort to build a more productive sales team?	☐ Yes	☐ No
Do your salespeople receive compensation that includes strong financial incentives to perform?	☐ Yes	☐ No
Does your company have a formalized written product and sales training program?	☐ Yes	☐ No
Do you role-play with your salespeople to both improve skills and to verify the transfer of knowledge from your sales training program?	☐ Yes	☐ No
Do you provide your salespeople with the tools that they need to succeed?	☐ Yes	☐ No
Do you continually provide your salespeople with accurate and updated information to aid in their peak performance?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✓ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Develop Effective Speaking And Listening Skills

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

DEVELOP EFFECTIVE SPEAKING AND LISTENING SKILLS

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

DEVELOP EFFECTIVE SPEAKING AND LISTENING SKILLS

Introduction

As the mantra goes, "It's not what you say, it's what people hear." For a listener to receive information positively, you must deliver it positively. There are already so many places that communication can go awry. Therefore, in a business setting, where everyday words can have bottom-line effects, why would you do anything less than your utmost to speak and understand others with perfect clarity? In this e-book we will help you work toward that goal and avoid costly misunderstandings.

Dale Carnegie's classic book, *How to Win Friends and Influence People*, presents some excellent ideas concerning positive speaking habits, words, and actions that create welcoming working conditions, how to best correct employees, and how to correct some common mistakes that may afflict our own communication habits. For instance, how many times have you told someone to make an improvement, but with no forethought about the best way to present the remark? If you say whatever comes to your mind, unfortunately, the information will rarely be received as you intended. How many times have you witnessed supervisors making the same spontaneous-speaking errors with an employee, achieving the same undesired results? Over time, not only will the improvements go unmade, but also supervisors lose their employees' respect and their effectiveness as managers.

In many work environments, employees actually resent their supervisors. Their bosses create stress and unpleasant mental working conditions, mostly due to inappropriate communication. Ultimately these disenchanted employees will leave the company, increasing its turnover and operating costs. This e-book can help you stop communication errors in your company before they make a dent in your bottom line.

Work toward a Pleasant Working Environment

Don't we all want to be surrounded by a welcoming, fun, reinforcing, positive, atmosphere that makes us feel good about ourselves? Why would a manager ever think that creating a work environment anything other than this would be an encouraging atmosphere for employment? It is of critical business importance for leaders and managers to create a pleasant working atmosphere for their employees, and to make people feel good about themselves. The habits are simple:

- Always exhibit a positive attitude.
- Smile a lot.
- Exhibit sincere interest in the other person.
- Ask a lot of questions about the other person's interests.
- Be a good listener.
- Use the other person's name often.
- Make people feel important.
- Compliment people often.
- Act professionally.

Yet many managers do just the opposite. Unfortunately, there are people who are in the position of managing others who need to feed their own feelings of importance. They exert power by giving orders rather than listening for feedback. Because of their own self-interest, they make their colleagues feel unimportant, and sour the workplace with their bad habits.

Happy people are productive people. To create a productive workplace where employees look forward to coming to work, your focus should be on hiring, training, and developing managers that create a favorable work environment.

Win at Biz Scorecard

- **A positive, respectful, enjoyable workplace that allows everyone to feel good about them selves increases productivity and retention. Do you and your managers create fun, pleasant working conditions?**
- **Do your managers' spoken words make the employees feel important?**
- **When is the last time you celebrated everyone's birthday with a pizza and an appropriate gag gift?**

Effective Communication Begins with You

How many times does communication fail in business? It can fail between leaders and employees, between a manager and an employee, between employees, or between employees and customers. Misinterpretation can cost a small business thousands of dollars. How can all the errors and misunderstandings between people be reduced? What would help is if everyone took responsibility for all the communication in which they were involved.

Responsibility begins with responsible listening. That's right: When you are in the listening role of the communication, it becomes your responsibility to make the communication effective.

Speaking and listening roles reverse many times in a dialogue, and communication will often break down as people mishear each other. What's happening is they haven't taken the time to develop the necessary discipline to really listen. There are an abundance of instructional classes and scores of hours spent on teaching people how to speak—nevertheless, communication will be unsuccessful if the listener is not doing his or her job.

Oddly, although we spend more time listening than we do speaking, most people fail at listening. We are deficient listeners because we do not focus all of our attention on what is being said, as though we not being willing to invest enough time to hear what we're being told, or to learn the techniques for doing so. We do not search for the real value in the message, and often rush to a conclusion before we fully understand the speaker's message.

You can probably recall a recent conversation where either we interrupted the speaker or we were interrupted by the listener with, "Yes, I know just what you mean…" The original message probably had to be repeated and then finished by the speaker because the listener interrupted, and was way off track with a premature interpretation of the message. We are all guilty of doing it; we have all had it done to us. With knowledge, practice and discipline, however, we can all become better listeners and, as a result, better communicators.

Imagine all of the benefits a company would reap if everyone in the organization practiced good listening skills. There would be fewer errors that cost the company money; there would be higher productivity and better attitudes among the employees; and everyone would have more respect for one another. The workplace would be a happier place for everyone.

Much of the following material about developing appropriate listening skills is from the book, *Listening Leaders*, by Dr. Lyman Steil and Dr. Richard Bommelje. With the above goals in mind, we will begin by focusing on what steps you can take to stop making common mistakes and become a responsible listener. Then we will turn our attention to training ourselves as well as those around us in good listening techniques, and how to reap the rewards in the customer service area, as well. Finally, we'll look at two common communication scenarios that are most ripe for misinterpretation, and guide you through how to handle them.

To become an effective listener and a better motivational leader, you must be willing to learn new listening skills and exert the necessary disciplines to put your newly acquired skills into action. You, as the listener, have to take the responsibility for the communication to be successful. The speaker cannot possibly know if the listener truly understands the message; therefore, it is the listener's responsibility to do the due diligence, and completely understand what is really being said.

The Pitfalls of One-Way Communications

It is appropriate at this time to say a word about communicating by notes, letters, or any form of electronic contact that is convenient. These are one-way communications, and one-way communications fail. Remember, messages in any format are not a good conduit for effective communications; they are one-way statements that do permit an opportunity for complete understanding or for an immediate reply.

How many times have you left a message or sent a one-way transmission to someone, only to be totally surprised by his or her response? With further conversation you become aware that what you thought was a very clear message was interpreted completely differently from what you intended. This problem is becoming more pronounced in our electronic age and, as a result, the quality of communication is breaking down between coworkers, between management and employees, and between companies and customers. The poor quality of one-way communication carries with it misunderstandings that negatively affect self-esteem, morale, and the cost efficiencies of doing business.

Unfortunately, many one-way messages or instructions are misunderstood at some level. They are misunderstood in terms of the desired transfer of information, the attitude of the sender, and the emotional impact on the receiver. How can you possibly deliver an effective communication when the other person cannot witness your emotions, see your facial expressions, hear the tone of your voice, conduct an exchange of ideas, or ask questions and receive answers to communicate understanding?

If management hopes to achieve the desired results from its communications, practicing the proper speaking and listening habits outlined in this e-book is imperative. Take the time to use proper speaking and listening habits with your most important assets face-to-face—and leave e-mail for mundane matters less prone to misinterpretation.

Win at Biz Scorecard

One-way electronic messages can be an efficient method to deliver generic information to a larger audience, but they are poor tools if your goal is effective communication.

Listening Is the Core of Effective Management

To be an effective manager you must be sincere in your belief that listening is critical to your success. To be a successful listener, you have to truly value the viewpoints of others. If you are not interested in learning and understanding others' viewpoints, you will never be an effective leader or motivator. This requires the immediacy of a face-to-face conversation, or where meeting is impossible, then at least a live phone call.

The first principle of good communication is this: In order hear, you need to take enough time to listen. You can never be in a hurry. If you do not have enough time to listen properly at the moment, you should reschedule to a time when you can. Think about your own experiences as a speaker. Who in your life makes you feel special? When you speak to this special person he or she makes you feel important because the attention is on you. He or she probably also asks questions to probe your opinions and feelings about specific topics, knows how to listen intently to you, understands your viewpoints, and respects your opinions. This person knows how to make you feel important.

Contrast that experience with a person who enjoys listening to him- or herself talk, displays impatience when you speak, looks around the room, and interrupts you before you are finished speaking. Generally these people are more interested in rushing to offer their own contrasting opinions before they thoroughly understand yours.

You must decide which person you want to be. Do you want to be that special person in another person's life or do you want to be the person to whom people hesitate to speak?

Being a great listener will require you to focus all of your attention on what is being said. Here are some tips for doing so.

- When you are listening, lean forward toward the speaker and make eye contact to help you focus on what is being said. Your focused attention will demonstrate to the speaker that you are interested in what he or she is saying.
- Nor can you turn off your listening skills because you do not want to listen to negative comments. When you hear negative comments, rather than turning listening off, you have to listen *more* intently and try to understand the speaker's point of view. You must be open-minded, always searching for a learning experience.
- And in order to search for understanding, one has to ask a lot of questions. It's positive to let the speaker do most of the talking, as people love to hear the magic of their own voices. It is soothing and relaxing to them.

- When you are listening, always identify any distractions around you and take the time to eliminate them. You cannot focus on the content if you are not giving the speaker 100 percent of your attention.
- Many times it helps to focus your listening by taking notes. Taking notes can help you search for the main point to the message, more easily discovering those learning moments. As with the tip to lean forward, note-taking also sends a clear message to the speaker that you are interested in what is being said.

Always remember that everyone has something to teach us. No matter how poor the delivery or how uninteresting the subject, you must discipline yourself to focus on the content of the message. Practice not avoiding challenging listening situations; instead, you should welcome them as challenges to learn a new viewpoint. As an effective listener and leader, you must become a searcher and seeker of knowledge. Learn to focus on what Drs. Lyman Steil and Richard Bommelje call the "value moment of listening." To find an ounce of gold you may need to go through 200,000 tons of rock. In other words, be patient. You sometimes must listen to a lot of useless conversation to seek out an ounce of valuable information.

As you are listening, search for that value moment. Do not get bogged down by the details of the speaker's message. Instead, listen patiently and search for the central idea in the message. Next time you are listening to any public speaker, practice listening for that "value moment" when you will uncover your ounce of golden information.

Many times the biggest hurdle to practicing effective listening is when the speaker presents the material in a combative way or the subject matter is very emotional for you. In these instances it is tempting for listeners to have a knee-jerk reaction and to reply in an attacking frame of mind. The disciplined listener will not allow himself to retreat to an emotional response, but will instead rely on his developed listening skills. If you dare, bring up some emotional political or religious subjects to discuss at your next family get-together. This is an ideal setting to practice your listening skills. Observe how a conversation can deteriorate when people do not practice good listening skills, and instead react with emotional verbal responses.

Win at Biz Scorecard

Do you practice these key listening skills?

- **Be patient; it requires time to listen effectively.**
- **Give the speaker your full attention; make him or her feel important.**
- **Listen intently and search for a learning experience.**
- **Take notes.**
- **Refrain from emotional, knee-jerk responses.**
- **Never interrupt or rush to a response.**

Speaking: The Other Half of Effective Communication

The skills involved in successful, motivational communication involve not only proper listening skills, but also the ability to convey a message. As we'll discuss in more detail later, effective messages have a structure (i.e., small talk, emotional transfer, information, and finally persuasion). As you might guess, then, effective speaking requires planning.

You must confront many challenging conversations in the course of business. From unhappy customers to problem employees to major changes that affect everyone, the situations that thousands of businesses face every day nevertheless can trip up the most skilled communicators. That is why you must do all you can to minimize costly mistakes and keep workplace morale high.

To achieve motivational communication, you will need to present the information in a manner that allows for it to be received well. Proper preparation often involves a written outline containing a review of what is functioning efficiently, plenty of positive recognition, education about the problem or issue at hand and how it is affecting the company, as well as a list of questions to solicit corrective ideas and feedback. Once you deliver your message, you shift back into effective listening mode.

In this section we'll cover two of the most common challenging communication situations, and see how to put our effective speaking and planning skills into practice.

Correcting Employees

How do we point out to employees that their work or behavior leaves something to be desired—without ruining their morale? Let's consider some effective language in this case. We'll focus on an approach that *motivates* corrective actions and *delivers* the desired outcomes.

When delivering your message, do your planning. Never say outright that the employee is doing something wrong. He or she will feel threatened and become defensive, and will probably attempt to defend his or her actions or beliefs. Also, do not try to convince the person that your point of view is the right one. People generally have more faith in their own ideas. Nor should you try to argue—because if you win, the person who loses will resent you. They'll resent you, too, if you give direct orders. Finally, and most important, never say anything that diminishes a person's self esteem. Remember, it is not what you think of a person that is significant. What is important is what the individual thinks of him or herself.

How would your significant other, siblings or children react to you if you used inappropriate language to correct what you considered to be a wrong action? Quite probably if you approached the matter with unsuitable language, you would get a very uncooperative, knee-jerk attack response. Likewise, when you belittle, argue, cajole, or bully an employee, he or she will have the same reaction—but probably hide it because you are the boss. Just because an employee reacts politely to your negative, corrective comment does not mean that he or she agrees with you. In the end, you will probably fail to see an improvement in the situation; and gain only resentment for your trouble.

So what's a manager to do? In order to change behavior willingly, one needs to approach the subject with the correct language.

The following are the recommended steps for attempting to motivate employees to alter their actions. Remember—take the time to prepare some constructive notes for yourself prior to the meeting.

1. Start all conversations with a drop of honey, a touch of friendship, a kindness, an expression of common interest, a compliment, or some honest praise and appreciation.
2. Discuss points you agree on to get the other person saying "yes" several times. You want to achieve a positive attitude from the start.
3. Educate the employee about how the problem is affecting the financial welfare of the company.
4. Do not talk much. Your job is to ask a lot of questions and find the reasons behind the way the person thinks and acts. You have to be sincere about listening and visualizing from the other person's point of view. Remember, the individual may not think he or she is wrong, so you need to be open-minded as you listen. You may be surprised and discover information that leads you to believe their thinking and actions have merit.
5. Humble yourself when you present ideas about how an employee can improve the outcomes for which he or she is responsible. For example, when you present ideas, give examples of your own past mistakes and how you had to correct your own actions before you were able to move forward to a better outcome. It is important to deliver information neutrally so it does not induce knee-jerk, combative reactions by the listener.
6. Your next challenge is to get the employee thinking and offering ideas on how he or she can improve his or her actions. Because people will only act on their own ideas, your goal is to make them feel that the idea you are endorsing is their own.
7. When you are going to present an idea, many times props and examples will help to clarify your communication. Anything visual is a lot more interesting and improves retention. When props or visuals will not work, use a paper and pencil to write down key points. Creating a visual focal point is going to be more effective than invisible words. Think about how difficult it is to sell a product sight-unseen. Visuals have impact!
8. Once the new actions have been decided upon, let the employee proceed with the new actions and ideas with his or her own form of self-expression.
9. Always allow the person to feel important. Motivate by appealing to his or her nobler side, giving him or her the tools and support needed to excel. Remember to give plenty of feedback and encouragement.

The following are two examples of a corrective conversation with a customer service rep who was experiencing difficulty with an angry customer. A poor approach may sound something like this: "Karen, I was listening to the conversation you had with that customer, and it didn't sound like you handled it very well. If you handle every customer like that, we are going to lose a lot of business. Why don't you try not to be so argumentative?"

How do you think Karen will react to the manager's comment? Do you think that type of instructional language will achieve a lasting change of behavior and a happy, productive workplace?

As a contrasting example, this instructional language may sound better. “Karen, I couldn’t help over hearing the conversation with that customer. It sounded like she was being very difficult and giving you a terrible time. Don’t let it upset you. Let’s get together today when you have a moment, I would like to develop some new ideas with you.” You’ve demonstrated to her that you will make an effort to see the situation from her point of view, and sympathize with it. She will enter the meeting more open to ideas on how to avoid the situation in the future—because if she’s like most people, the less often she has to resort to arguing with customers, the happier she’ll be.

Later, in a private meeting you could say, “Karen, I would like you to help me develop a plan to deal with those angry customers. You do an outstanding job in building positive relationships with our other customers; and you are a real asset to the company. When I started doing customer service work, I dreaded talking to the difficult ones; I thoroughly understand how emotionally draining they can be. It wasn’t until I took a great course on how to disarm them that I finally improved my skills. Once I developed an effective plan for myself, I didn’t get upset talking to those angry customers, and I’m sure the customers were a lot happier, too.”

Now would be the time to ask your prepared list of questions and listen carefully to the answers. “How does it make you feel when a customer starts yelling at you? Do you think they are mad at you personally? What is your first impulse when they start yelling at you? What is your goal for how you want the service call to end? Do you get personal satisfaction in resolving customer complaints? Would you like to offer some ideas to help develop a plan to make your job less stressful when you get these calls?”

Together the two of you can develop a written plan for handling service calls from angry customers that will achieve the desired outcome. List the ideas physically on a sheet of paper. Of course, you already have a master plan in your mind as to how you would like Karen how to proceed with her customer service calls, and you could have simply handed her a written copy of instructions—but you know that in order to get the results you want, she must contribute her own ideas in the development of the plan.

When the plan is complete you might say, “Karen, I am confident that with this new plan you have created, you are going to be turning a lot of angry customers into our best customers.”

So, given these two scenarios, which language approach do you think will create a lasting change in behavior, obtain the desired results, and allow the person to walk away feeling good about him or herself?

That’s what I thought.

Win at Biz Scorecard

When correcting the wrong actions of an employee, educate and give them an opportunity to express their ideas. Employees will only act with enthusiasm on ideas which they believe to be their own.

Win at Biz Scorecard

If you expect to correct an employee's actions and achieve desired results, you must devote time to prepare.

Informing Employees about Change

How do we inform employees of change without negatively affecting their morale? Management in companies of all sizes make decisions every day that are handed down to subordinates in one-way communications that have devastating effects on morale. When people have not been given the opportunity to express their ideas and be heard, they will generally not be as receptive to change.

In these situations, management must first be willing to devote the time to educate people about the current business situation, along with the problems and challenges that demand the company to adapt. Not only can employees offer valuable input, but just the fact of your effort to educate them tells them that they are important. Your transparency and openness to feedback will engage the employees around the challenges and rally everyone around an ultimate solution. This team approach allows people to support the solution as a positive change enacted in the best interest of the company.

When you are about to discuss business problems that affect subordinates, proceed according to the following steps.

1. Disclose the problem and supply employees with all the necessary information that will allow them to offer educated ideas.
2. Provide a vision of what the company must look like after the change.
3. Share all ideas that have been considered.
4. Invite the employees to share their own ideas.
5. Conduct a caring and respectful forum where these ideas can be heard.
6. Inform everyone why the ultimate solution was chosen.

Win at Biz Scorecard

In order for people to accept change willingly, they must be involved in the planning process and given an opportunity to be heard.

Training for Effective Communication

In addition to the key speaking and listening skills offered above, you can continue your practice by expanding knowledge throughout your company, and incorporating key skills with the strategies that we'll cover in this section. You and everyone around you can start practicing a comprehensive system of good communication—and it is even more imperative for those who supervise other employees to complete this kind of training.

Habitual, winning, listening and speaking habits do not just happen. These habits must be taught. You cannot expect managers to use motivational language and listening skills if you do not teach them how. Written training programs that coach employees in effective communication need to be developed; and these training programs need to be incorporated into the company's larger framework of systems. Great communication starts with you, both in the example you set with your own listening and speaking skills, and also with the processes and training you implement in your company as a best-practices standard.

The key word is *practice.* Any good training program should incorporate role-playing to be effective. Many times very specific dialogues can be established in advance for a training program in which a host of scenarios can be anticipated and prepared for, such as correcting employees who are often late. You can develop a dialogue for communicating in any difficult situation so that your entire organization can begin practicing great communication no matter the scenario.

In this section, we will cover a foundation for such a training program: the four purposes of speaking, and the four steps of good listening.

The Four Purposes of Speaking

It is easier to understand a message if you know why you're hearing it. In other words, get into the habit of asking yourself, "Why does this person want to talk to me?" A speaker's purpose can be divided into four categories.

1. *Small talk.* Relationships are built by investing listening time and patience into small-talk conversations. Most meaningful conversations cannot take place without first developing some type of a relationship through small talk.
2. *Emotional release.* This could be either a negative or a positive emotional release.
3. *Transmission of information, data, and knowledge.* All communication contains some type of information; however, sometimes it is the speaker's primary purpose.
4. *Persuasion.* When communication contains persuasion, the listener will need to employ a higher level of critical thinking to determine their agreement, disagreement, or possibly a course of action.

Knowledgeable listeners are aware that these steps build on one another. Before being persuasive, the speaker must first develop a relationship through small talk, receive a positive emotional release by the listener, and allow for the effective transfer of information. Effective persuasion usually cannot begin until all these steps have happened.

The Four Steps of Listening

Once you have identified the purpose of the speaker, you can sharpen your listening skills by developing an awareness of the four steps to improve listening. As you read them, you'll understand why the principles of total attention, lack of hurry, and mental calmness are so important.

Premature interpretation, evaluation, or response are common reasons that communication fails. Each of the following four steps must be completed in sequence.

1. *Practice paying attention to your senses*. You must listen to what you see, not

what the speaker is saying. What does the body language tell you? Look into his or her eyes, listening to the tone of voice. Identify the purpose of the communication and listen to what is NOT being said.

2. *Practice interpretation.* When you have taken mental note of your senses, you may then move on to interpreting the message. Your goal during this step is to correctly receive the speaker's message. The listener's interpretation of the message must match the speaker's intention. In order to achieve a complete understanding of the speaker's thoughts, attitudes, and feelings, the listener needs to probe by asking follow-up questions. It is common for a speaker to not word his thoughts properly in the rush to communicate a thought. As a result, it usually takes a series of questions by the listener to give the speaker several opportunities to clarify his or her message.
3. *Evaluation of the message.* When both you and the speaker have confirmed an understanding of the message, you can proceed to step three. It is critical that you do not begin to evaluate the message until comprehension and understanding is 100 percent complete! Most listeners err by evaluating and responding to a speaker's message too quickly. Be patient; take time to probe with questions until you have enough information to evaluate the message. Be aware that when the purpose of the speaker has been identified as a strictly emotional release, you will never move to the evaluation or response steps. People will generally solve their own problems if they simply have someone who will listen.
4. *Response.* The communication is incomplete without a response. The speaker will not know that the message has been successfully transferred if you do not verbally confirm this is true. Always consider the speaker's purpose before responding. During the response step, you first need to question, clarify, and paraphrase the speaker's main points. Through your response, reassure the speaker that you comprehend the speaker's thoughts, opinions, feelings and attitudes.

By using the listening and speaking skills discussed in this book, you should be well equipped to build effective training programs and establish them as one of your business processes. In order to build a team of motivated individuals working toward a common goal, it is imperative to keep morale high. This can only be accomplished when individuals in supervisory positions know how to speak and listen effectively.

Win at Biz Scorecard

Establish a training program today to teach effective speaking and listening skills. Establish predetermined dialogues and incorporate role-playing into your training programs.

Use Effective Communication to Satisfy Customers

As you broaden your circle of motivational communication from yourself to your employees, the next logical step is to your customers. Unhappy customers spread aggressive word-of-mouth advertising: the bad kind. Yet every customer whose complaint is handled well will produce several times more word-of-mouth advertising than a customer who has never had a complaint at all. Even so, in any training program you design for your company, your customer-service staff must understand that their company incurs a cost with every customer lost. Proper listening skills can prevent these costs, and gain the profits of good word-of-mouth advertising.

As a business owner, you should know exactly what it costs to obtain one new customer. You probably already know that for customer you lose, you must increase your advertising expenditures to buy one customer to replace the unsatisfied one you lost, and one for growth. There is value in keeping customers happy—it's common business sense.

Effective listening skills are the cornerstone of customer service. Customers who complain and are taken care of properly are good for your business—but the proper care depends on well-practiced communication skills and plenty of role-playing behind the scenes. The steps listed below will offer you a good starting point when developing a written customer service training program. While you can't expect customers to practice good communication skills, you can train your staff to handle any complaint with grace and efficiency.

Winning Communication Techniques that Satisfy Customers

1. First and most important, use the key listening skills taught in this e-book. Listen intently for the content of the message.
2. Never interrupt the customer no matter how tempted you may be. Your goal is to let the customer talk and allow time for the customer to release all of his or her emotions. Interrupting the customer will only feed the fire and make matters worse. Your discipline is to listen, take notes and uncover the pertinent points of the message.
3. Only when the conversation has gone silent should you speak. An appropriate response could be something like this, "Thank you very much for calling us to make us aware of your concerns. Did you have anything else you would like to tell me?" The objective is to exhaust the customer's emotions before you speak.
4. When the customer is finished speaking, it would be appropriate for you to review the message aloud. The goal at this point in the conversation is to confirm that you have interpreted the message and the problem accurately.
5. Once you have confirmed that your interpretation is accurate, you should review with the customer what should have happened if everything had gone smoothly.
6. Before you propose a solution, you should ask for ideas on how to satisfactorily resolve the problem. Once you have the customer's reply, you can agree on a course of action.
7. Customer satisfaction will be easiest if you can solve the problem

immediately. If the corrective action requires several days to complete, take the initiative to keep the customer informed about the progress.

8. Once the problem has been solved, ask the customer if he or she is pleased with the manner in which the complaint was handled. It may be appropriate to give the individual something extra to create some additional goodwill.

Role-playing these scenarios will increase retention and skill among your customer service staff. The *Edward Lowe AT&T Website* is a source for additional customer service training ideas.

Win at Biz Scorecard

- **Do your customer service people understand the financial effect of lost customers?**
- **Do you have a training program in place to teach your customer service people how to listen effectively and solve customer complaints to the satisfaction of your customers?**

Win at Biz Checklist

✔ Do you practice the proper speaking habits outlined in this chapter to make the workplace more fun and enjoyable for everyone?	☐ Yes	☐ No
✔ Do you have a structured, written training program in place that teaches appropriate communication skills through role-playing?	☐ Yes	☐ No
✔ Do you require all new supervisors to complete the training program before they begin supervising others?	☐ Yes	☐ No
✔ Do you conduct educational training programs with all of your employees about how to communicate properly with customers and with one another?	☐ Yes	☐ No
✔ Do you instruct supervisors about the limitations of utilizing one-way messages in any format?	☐ Yes	☐ No
✔ Have you been successful at creating a rewarding workplace where positive attitudes are built with the proper motivational language?	☐ Yes	☐ No
✔ Have you created a rewarding environment to work where people feel wanted, respected and good about themselves?	☐ Yes	☐ No
✔ Do you take the time to practice responsible listening habits with your employees?	☐ Yes	☐ No
✔ Have you established a written training program to teach responsible listening habits to your employees?	☐ Yes	☐ No
✔ Do you require your managers to complete a listening training course before they begin managing others?	☐ Yes	☐ No
✔ Do your customer service and sales people practice responsible listening with your customers?	☐ Yes	☐ No
✔ Do you have effective, written training programs in place for your customer service people?	☐ Yes	☐ No
✔ Do your customer service people understand the financial cost to the company when customer complaints are not resolved satisfactory? Do you role play with your customer service people to verify learning and retention?	☐ Yes	☐ No
✔ Do you verify that your customer service people are delivering the desired results to your customers?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!

LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

Develop Successful Leadership Skills

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

David Gabbert

davidgabbertbusinesscoach.com

WIN AT BIZ®

DEVELOP SUCCESSFUL LEADERSHIP SKILLS

A TEN E-BOOK SERIES

AUTHOR DAVID GABBERT

Publisher
Gabbert Development Inc.
7605 Equitable Dr.
Eden Prairie, MN 55344

Line editing by Sue Ericson Ensign
Comprehensive editing by Sarah Cypher, Three Penny Editor
Interior design © Joel Adams
Cover design © Joel Adams

TABLE OF CONTENTS

DEVELOP SUCCESSFUL LEADERSHIP SKILLS

Introduction

Every successful company needs a successful leader. A company's ability to produce profitable growth will rise or fall depending upon the competency of its leadership. Just as a ship needs a captain to chart the future course, a business needs a leader with a clear vision of where the company is going and how it is going to get there. Tom Watson, founding CEO of IBM, stated it best when he said that his success was due to being able to write down what he wanted the company to look like in ten years and how it would have to act to become that company. You must start working toward acting that way today by measuring your actions at the end of every day and comparing them to the actions you wanted to take, and correct any shortfalls.

Many people think the culture of a company is a slogan or a few sentences of copy in an advertisement—however, the real culture of a company is the customer's experience every time he or she does business with you. The people who the customer meets in the course of a transaction form their positive or negative experience. Employees' actions, for better or for worse, are a direct result of the culture that has been created at the top. When you look at the most visible results of effective leaders, you'll see that their leadership is apparent in how they define and affect the culture of the company. Leaders may have a vision of what their company should be, but to achieve it, they must also inspire that vision and spirit in every employee.

A winning culture is developed by a myriad of leadership actions that we will examine in this e-book. As John C. Maxwell points out in his book, *The 21 Irrefutable Laws of Leadership*, leadership is simply the ability to influence others. Yet managing is not the same as leading. Managing is focused on maintaining systems and a positive direction, while leadership requires vision, building relationships, earning trust, passion, humility, training new leaders, and a continuous habit of self-improvement. Only through these processes can you earn followers on the journey of leadership.

As your abilities to lead improve, you will add more value to both employees and the company. Every company has a lid on its growth potential based on your skills and effectiveness. Removing that lid demands self-awareness and self-improvement.

Develop a Clear Vision

Employees need a clearly defined mission. Clearly defined goals provide meaning and purpose to their work; they need to believe they are working for something worthwhile and greater than themselves. When employees are engaged and inspired by a clear purpose, they will create a real value in the marketplace by providing superior products and service to their customers.

This vision—and its clear communication to employees—is the basis of leadership, and it shows up in the increased growth and profitability of the company. To help clarify a vision for your company, I have found the following core topics an excellent place to start. Jim Collins, in his book, *Good to Great*, calls these first three topics "the three circles for success."

- The *first* circle is what the company stands for, or what the company and its leaders are deeply passionate about.
- The *second* circle is whatever it is in the world that you can do the best.
- The *third* circle is what drives the company's economic engine.

It is sad but true that many companies muddle along day after day without ever discussing the topics of the three circles of success and, as a result, never focus their employees' efforts towards a common purpose or vision. A continuous flow of information to your employees is imperative, because it nourishes the human desire for a mission. That is why leadership succeeds or fails based on the quality of the communication. So, the circles for success not only need to be determined, but also need to be in writing. They need to be openly debated and understood by all of the followers in the group; actions need to be measured and reviewed quarterly relative to the distance between the end goals and daily actions and results.

As you go about the processes of vision planning, articulation, and communication, consider the following tenets of good visionary leaders. First, skilled leaders will determine their vision and chart a course of action for the company by drawing on their past inner experiences, examining outside competition, evaluating economic conditions, and collecting ideas from a variety of sources. Second, they use skillful communication strategies to articulate their vision, allowing time for his or her key people to accept the uncertainty of a new course and get onboard. Third, they plan future actions in detail to instill a sense of trust and confidence in their followers. And fourth, leaders will help their followers stay focused on the objective by reviewing results and shortfalls frequently, evaluating new roadblocks or changes to the competitive environment, and pointing out successes.

In tandem to these considerations, I have found it useful to be aware of the following pitfalls to growth discussed in Bill George's book, *Authentic Leadership:*

1. Always remember what your core business is and do not lose sight of it.
2. Do not depend on a single product line.
3. Do not venture outside your core competencies.
4. Do not work without a clear mission that is understood by all of your followers.
5. Stay in touch with your customers and competition so you can identify technological and market changes that are taking place within your industry.

Win at Biz Scorecard

- **Everything starts with a vision of where you are going. It is the leaders's role to capture and communicate the vision. Have you identified your three circles of success?**
- **Do your followers debate and understand them and do their daily actions focus on a common company mission?**
- **Do you periodically review where you are relative to your goals?**

Become a Pro at Building Relationships

Beyond awareness of your industry, beyond a vision of success within it, and beyond even the most diligent communication strategies, you still may not be an effective leader. If you want to build a team of followers, you must also develop leadership skills. People will not buy into your goals, dreams or passions until they have first bought into you as a qualified leader. People will not follow someone who has not taken the time to build a successful relationship with them, or whose skills and qualities aren't worth their trust.

To become an effective leader, you must become a professional relationship-builder. Relationship skills ought to be common sense, but sadly, they are not. Start by listening to people and learning what they value; focus on them, rather than on yourself. Give sincere praise; spread hope about the future; teach people new skills; provide them with new opportunities; communicate insights from your past experiences; lift them up in your communications to see the best in themselves; make them feel important.

Your goal should be to always create a positive and encouraging atmosphere. It all starts with expressing a sincere interest in others by listening for clues of the good things they are doing. You can then respond with positive phrases that fit, such as "I believe in you," "I trust you," "You can do it," "I need you," "I respect you," "Thank you," and, "I'm proud of you."

The Maxwell Daily Reader on leadership, by John C. Maxwell, offers excellent suggestions about building relationships. A major factor in building successful relationships with each person is simply the leader's ability to adapt, understand, and connect with each person individually. It is important to understand all people will value some things in common. Everyone wants to feel special, so compliment them. Everyone wants a better tomorrow, so give them hope. Everyone desires direction, so navigate them. Everyone is selfish, so speak to their needs. Everyone has emotional lows, so encourage them. Everyone wants success, so help them win. "If you first find their hearts," Maxwell writes, "they'll be glad to give you their hands."

Win at Biz Scorecard

Abraham Lincoln said, "If you would win a man to your cause, first convince him that you are his sincere friend." Are you focusing on building meaningful relationships with your followers?

Enlarge Those Around You

To lead others using relationship skills, you should seek to enlarge your followers. Competent leaders are modest about their own accomplishments, and instead put their focus on enlarging those around them by generously passing out praise and recognition for jobs well done. Every time you give people credit for doing something right, you give them the positive reinforcement and confidence they need to perform at a higher level.

Give ample encouragement; everyone needs encouragement. Encouragement will empower people to try harder, give them energy, and help them to reach their potential. Everybody can be somebody when they know someone believes in them. The simple act of telling someone, “I believe in you,” enlarges and empowers them. To help them win, develop goals for them so they can experience success in small steps. Success will make them feel good about themselves and show them who they can become.

Leaders can enlarge others simply by giving people personal attention. Show someone you care about them by taking an interest in their life story; make them feel special about themselves. Don’t be afraid to tell people how valuable they are to your organization. Let them know often how much of a difference they are making and how much you appreciate their work and loyalty. By making this a daily practice in your life, you will be nourishing the relationships essential to your success as a leader.

Win at Biz Scorecard

Thomas Jefferson said, “A candle loses nothing when it lights another candle.” Poet Johann Wolfgang von Goethe said, “Treat a man as if he already were what he potentially could be, and you make him what he should be.” Are you consciously devoting your thoughts, efforts, and words to enlarging those around you?

Build Trust, the Cornerstone of Leadership

Relationships are about more than just offering kind words and listening to people’s needs. Enduring relationships require trust.

Trust is the glue that holds everything together in business. Employees must trust their leaders. Customers must have trust in the products and the people who represent them. Investors and vendors must trust the management of the company. Trust is built by leading from your values, a good and just moral center that coveys your convictions and beliefs. Successful leaders do not talk about their values—they practice them. Leaders who exhibit strong character with consistent actions, honesty and loyalty, and who place their followers’ and company’s interests ahead of their own personal agenda, build trust.

Leaders let their actions speak. They practice their values, and surround themselves with people who share the same ethics. As a result, they build ethical companies that people trust. When leaders fail to abide by the values they proclaim, they undermine their credibility. To paraphrase Thomas Jefferson, in matters of moral values and principal, stand like a rock; in other matters, swim with the current.

Think about the trust an insurance company must project. The company is asking you to give them your money today for an event that may happen sometime in the future which would require agreed upon actions by the insurance company. Names like Prudential, Allstate, and State Farm are all names that you trust to deliver on their promises.

Building trust starts with the leadership at the top. Without trust it would be impossible for these companies to be successful. If you hope to develop into a leader at any level of the business world, you must successfully build trust with your followers, coworkers, and upper levels of management. Remember, trust has to be earned by your words and actions *every day*. If you make a promise, follow through and keep it. Prove to your team members, employees, and customers that they can always count on you not only to be encouraging, but to be ethical and consistent as well.

Win at Biz Scorecard

Trust is the single most important factor in building successful relationships. Are you building trust everyday with words and actions that are consistent, accountable, and reliable?

Be Willing to Sacrifice

Your generosity of spirit, encouragement, and values will do much to build relationships. Those relationships will be built on trust, and in the best of times, will be the cornerstone of your leadership power. But what about the inevitable, challenging times? How will you preserve that trust, and let it grow ever deeper?

There is a cost to leadership. If you want to lead people, you have to be willing to accept the responsibility that goes with the job. Effective leaders must always be willing to give up more of themselves than their followers are. It is a decision of trade-offs that every leader must constantly be entertaining. Ralph Waldo Emerson expressed it best when he said, “For everything you have missed, you have gained something else; and for everything you gain, you lose something.”

Leaders must be willing to make personal sacrifices for the team, as well as make difficult decisions. As a leader, you must model sacrifice before you can expect your followers to sacrifice. Your company will see good times as well as challenging ones, but if you have built your leadership on strong relationships, strong ethics, and a willingness to lead by example—starting with the sacrifices—it will continue to grow.

Win at Biz Scorecard

Author John C. Maxwell says “Success comes down to sacrifice; a willingness to pay the price, sacrifice your own desires and give up a part of yourself for the success of the organization.” Do you model sacrifice before you ask others to do the same?

Identify Your Passions and Lead with Servitude

How does one become an effective leader? You hear people say, “He’s a born leader.” Others believe that leaders all share common traits or natural talents.

What about you? Start by identifying your passions. Think about how those passions will serve others. I would encourage you to read an excellent book, *True North*, written by Bill George, former CEO of Medtronic. In the book, George points out that one of the most common characteristics leaders share is a passion about something that is overwhelming to them. The book cites many examples of successful leaders that have become very passionate about something that has evolved from their life experiences.

Another interesting book, *Success Built to Last*, by Jerry Porras, Stewart Emery and Mark Thompson, talks about the importance of pursuing something that really matters to you—especially if you are going to succeed over a long period of time. If you are not pursuing something in a field where you feel you can make a difference; if it does not bring you personal fulfillment; or if you do not love it more than just about anything else, you will lose to someone who loves it more than you. If you are going to succeed long-term by overcoming the many failures that will assuredly cross your path, the reward for pursuing your passion must be in the doing—not in the title, power, or financial rewards. If your passion is going to become a business success and endure, then whatever it is that is important to you must also serve and help others.

As most company-builders pursue their passion, they learn the skill of motivating others to want to make a difference. When leaders are successful, their passions will serve others and become their followers' passions as well. Developing these leadership skills can be a transformation that takes a lifetime.

A wonderful example that comes to mind are the lifetime efforts of my friends Dianna and Norm Hedgebeck. Dianna and Norm both evolved into successful leadership roles from the pursuit of their passions that developed out of an unfortunate life experience. At the age of 13, their daughter died of leukemia. Before her death, she asked her parents to donate her savings for her bicycle to search for a cure for leukemia. Out of this tragic life experience, Dianna and Norm pursued their passions by organizing a charity event to both honor the life of their daughter and to help stop this terrible disease from taking other children's lives. The event's purpose was to raise money to fund research at the University of Minnesota to search for a cure for childhood leukemia. The first event was organized by Dianna and Norm and a handful of friends; over the years, they were able to successfully transfer their passion to a growing group of followers. They developed into successful leaders because they were able to make the transition from *I* to *we*. Every person who donated his or her time and effort was rewarded personally with feel-good benefits, and the Children's Cancer Research Fund has raised $100,000,000 since 1980.

There are a few core characteristics of passion that feeds successful companies. First, your passionate pursuit may start with you, but if your passion is going to become a successful organization that will pass the test of time, it ultimately will not be about you. If your venture is going to flourish and grow, you will need to get your followers as excited about your mission as you are. And, in order to generate excitement in your followers, your passion will need to complement their interests.

Second, and naturally, one of the groups of people that leaders will need to be passionate about serving will be customers. The purpose of every company boils down to serving its customers. True leaders must have a real passion for serving customers' interests and must set the standards, aligning the employees' passions to serve customers as well.

Third, in order for you to successfully serve others, you must be authentic. Authentic leaders are so passionate that it becomes apparent to everyone that this passion is not an act—it's the real thing. Passion is infectious, and brings people together around a shared purpose. You cannot develop credibility as a leader until you show your followers how much you genuinely care about them. For instance, to become an effective leader, your goal should be to add value to your followers' professional lives. When you are committed to adding value, you are advancing their knowledge and feelings of self-worth; you are also inviting them to become a part of something bigger than themselves.

Mary Kay, one of the most successful woman entrepreneurs in America, talks in her book, *The Mary Kay Way*, about how every leadership decision at the Mary Kay

Company is based on the teachings of the Golden Rule, which states, "Do unto others as we would have others do unto us." In other words, make decisions based on what is truly best for your employees and customers. Treat them the way you would want to be treated. Lead on a philosophy based on giving and caring about what is genuinely in the best interests of others. Always remember that people will not follow you until you have first developed a relationship with them that tells them you care.

John C. Maxwell, leadership author, said, "Following your passion is what allows ordinary people to achieve great things. The stronger your fire, the greater your desire, dedication and productivity. You can't start a fire in an organization unless one is burning in you."

Win at Biz Scorecard

- **Have you determined what it is that you are truly passionate about?**
- **Do your passions serve other people's interests?**
- **Are you adding value to your followers' lives?**
- **Do your followers believe you care about them? Remember, you have to show people you care about them by taking an interest in them before they will move toward you and follow you.**

Allow Your Passion to Feed Your Perseverance

Typically, successful leaders are so determined to pursue their passion that they are almost fanatically driven to produce positive results. They take whatever actions are necessary, and make tough decisions to ensure the company's success. They possess a winner's attitude, giving them the staying power to overcome the many obstacles that would hold back lesser people. They understand that failing is a path to success, and that errors and negative experiences are parts of life. They learn from their failures and turn them into opportunities to achieve a dream.

The determination of Henry Ford offers a great example. Henry Ford, a farm boy born in 1863, showed a preference to mechanical tinkering rather than farm labor as a young boy. When he was sixteen, Ford left the family farm to seek employment as a machinist in Detroit. He started reading scientific publications and became aware of others experimenting with engines that could run on illuminating gas formed from the vaporization of gasoline. By the age of twenty, Ford had developed a reputation as one of the best mechanics in the area while working for Westinghouse as a troubleshooter repairing steam-driven farm equipment. Ford frequently talked about the possibilities of transporting people with a horseless carriage, and became obsessed with developing a lightweight gasoline engine that would make farm labor more efficient.

By 1890, Ford had developed a two-cylinder gasoline engine that did not require a heavy flywheel to apply power. Now married with one child, Ford was the chief engineer for the Edison Illuminating Company. While working for Edison, Ford worked evenings and weekends on the development of his visionary engine. In 1893, Ford successfully started a four-cylinder engine with a spark from an electrical current. Over the next three years Ford assembled a team of tradesman with various skills to help pursue his dream.

He showed an amazing ability to assemble talented people to work together for the pure love of a common goal. Ford found investors and the Detroit Automobile Company was formed in August of 1899; however the company failed to produce one vehicle. In November of 1901, the Henry Ford Company was capitalized by another group of investors, again failing to produce a single vehicle.

Ford turned his attention to building and driving racecars in his spare time until the fall of 1902 when he assembled another team of devoted followers to help him build another car for mass production. In June of 1903, with another group of investors, the Ford Motor Company was incorporated; the first Model A was sold in July for $850.

Ford proved to be an authentic leader because the purpose and ambitions that relentlessly drove him were not self-serving, but instead focused on improving the daily lives of the masses. Ford was never motivated by financial goals, power or fame. He would often work out in the factory, side-by-side with the other mechanics. As a true leader, Ford knew the role in which he could excel was as a master engineer and mechanic. He understood that he lacked business skills, and surrounded himself with qualified people to carry out the day-to-day business tasks.

The investors of the first two companies, as well as the investors of Ford Motor Company, insisted Ford develop and market luxury automobiles to the wealthy which could sell for higher margins; however, Ford could not be coerced into abandoning his teenage dream of providing powered transportation for the masses. After forcing out key investors who had endorsed the production of luxury vehicles, Ford was finally able to turn his lifelong passion into reality. In 1909, after years of design changes and relentless testing, the famous Model T was introduced. By 1920 over fifteen million Model T's would be manufactured, accounting for over half of the cars on the road.

Henry Ford provides us with a great example of how a fanatically driven leader can endure a multitude of failures, disappointments and roadblocks over a long period of time until the goals are finally realized. To learn more about this outstanding entrepreneur read *The People's Tycoon*, by Steven Watts.

Lead by Example

As a leader you must be visible and accessible. Leaders have to be seen working tirelessly toward common goals if they expect others to follow them. You cannot lead effectively by hiding behind a closed office door and never being seen. Your passions can only become infectious if you are accessible, actively communicating with others, and outwardly working at your passion. Being an effective leader is not about what you think or say but about enacting your values. Effective leaders will model their visions for their followers by their own actions. Utilize "management by wandering around," as it describes how effective leaders use visibility to help them gain the trust of their followers.

People will only follow a leader whose actions are in line with what they are communicating. A leader can talk about desired actions, however, a good leader will lead by example. Typically, the more convincing a leader's actions, the higher the level of actions, commitment, and productivity he or she will generated from the team. What could be better proof that what you are asking people to do can be done, than giving a demonstration with your own actions?

Remember followers will always doubt what you say, but they will believe what you do. It follows that if you want to teach your employees how to raise the level of their productive actions, you need to constantly be working to improve your own. People will always work alongside you.

Many companies fail, not because the abilities of the leader are poor but simply because there is an absence of leadership. Rather than actively and visually leading by example, the leaders are out playing golf or hiding behind a guard of assistants to limit their accessibility. In order to lead by example, it is important to maintain an open door policy and to be a visible leader.

Win at Biz Scorecard

Albert Schwetzer said, "Example is not the main thing in influencing others... it is the only thing." Your followers will emulate what they see modeled. Are you creating a positive climate by leading with a positive example?

Practice Accountability and Constant Self-Improvement

Leaders also need a high level of self-discipline. In order to produce results, leaders must hold people accountable for their actions and hold them responsible for achieving necessary outcomes. But most importantly, leaders must hold themselves accountable—it is a natural extension of leading by example.

Leaders understand that you don't look around for someone to blame every time things go awry. The look in the mirror. They discard blame, keep their thoughts focused on the objectives, and search for methods to improve. As President Truman said, "The buck stops here." Successful leaders understand that problems will arise and mistakes will happen; however, they are ultimately responsible for the solutions.

Win at Biz Scorecard

Dealing with problems is a matter of attitude and perspective. Successful leaders will focus on the solution rather than the problem.

Ideally, to grow your company you must be proactive in improving yourself first. Successful leaders realize self-improvement is a never-ending process; you must be willing to change yourself to become a more effective leader, avoid problems before they happen, and see the company's potential realized. You can never expect to reach your full potential if you are not willing to commit to change and personal growth.

You need to remain teachable. Successful leaders must be perpetual learners. John C. Maxwell offers the following thought: "The first step to becoming a teachable leader is to learn to listen. Listen to others, remain humble, and you will begin to learn things everyday that will help you to expand your talent and leadership skills." As you develop the disciplines to self-improve, start by recognizing your strengths and then focus on improving by accepting new challenges in your strength zones.

There isn't anyone who is not capable to do more than he or she thinks they can do. We all have unlimited potential, yet to few of us ever try to reach it. It is when you can identify your passions and are committed to growing everyday to reach your full potential that you begin to walk down a path to success, and lead your employees by your example.

Win at Biz Scorecard

Successful people must possess an attitude of teachability and willingness to change themselves to self-improve. John C. Maxwell sums it up by saying, "No matter how much I know, I can learn more from anyone or any situation. If you live to learn, then you will really learn to live." Are you committed every day to learning new skills and new knowledge to improve your leadership capabilities?

Expect Success

Passionate, authentic leaders will accept nothing short of success. Your personal success will ultimately be judged by how effectively your company can compete in the marketplace, and how successful it is in generating both tangible and intangible benefits for your employees, customers, suppliers, and investors.

True leaders possess a persistence and determination to continue searching for winning strategies until they have surpassed and defeated the competition. In the free supplement to Book 1 of the *Win at Biz* series, you will read about Bryce Peterson, founder of Plantscape. Bryce founded his plant leasing business in 1974. Despite a ten-year struggle to find a winning business model, he persevered and expected success: and eventually discovered lasting financial success that in the marketplace. At a business breakfast club gathering, I had the pleasure of listening to the life story of another successful local businessman, Dick Enrico. Dick is the founder of 2nd Wind, a successful retail outlet of exercise equipment operating approximately forty stores in seven states. Dick told us 2nd Wind was his twenty-second business start-up after twenty-one previous failures. Talk about an example of persistence and determination to succeed!

Yet my favorite story from history is about the Wright brothers' desire to exit the waning bicycle business and enter the business of inventing, manufacturing, and selling airplanes. In the course of four years' attempts to apply the principles of physics to a new application, the Wrights invented and solved "the torsion principle," which is the ability to bank a plane on a turn by raising one wing with increased air pressure while lowering the other wing. The Wrights tested over two hundred wing styles, developed a mathematical coefficient for air pressure against the wing, and invented a six foot tall vertical tail to improve control of the plane. In their hundreds of test glides they developed nine different control systems. To make the leap from a successful glider to a powered plane, the Wrights would first have to develop a twelve-horsepower, four-cycle engine as well as a propeller that could provide 132 pounds of thrust and rotate 350 revolutions per minute. Their first successful powered flight in 1903 lasted 59 seconds and covered 300 yards. Yet in order to turn their years of labor into a profitable business, they would need to obtain patents to fight off the increasing competition, improve slide slipping on turns, and provide more lift for takeoff. It would ultimately take ten years of labor, before American investors capitalized the Wright Company in 1909 and offered them an initial payment of $100,000. In 1915, Orville Wright sold the company for $1,500,000.

We live in a nation of innovators, and their lessons are all around us. To succeed as leaders, we need to show the same unwavering persistence and determination in any endeavor we take on.

Win at Biz Scorecard

Only when something really matters to you and you believe you can make a difference can you sustain your leadership efforts over a long period of time. Only when your passions serve others interests can you build a lasting organization.

Build Around Others' Strengths

Effective leaders tend to have a strong self-awareness. In other words, they really need to know themselves. They need to understand their strengths and interests and be able to recognize the roles in which they will perform best. Great leaders accept and are open about their weaknesses, too, astutely filling those skill gaps with other people's strengths.

Consider the leadership challenge President Lincoln faced as Southern states were seceding from the Union as he was taking the oath of office. Lincoln wisely surrounded himself with a cabinet of advisors comprising the best political minds of the times, regardless of political ideology or ambitions. Most of these men doubted that Lincoln had the leadership capability and experience to lead the country through the conflict that threatened the nation's survival. Though many doubted him, Lincoln held steadfast to his belief that the Union in its entirety must be preserved at any cost. As his cabinet members witnessed his leadership skills and character shine through over the early years of the war, they eventually began to trust his judgment, becoming loyal followers who supported his decisions while working tirelessly for their leader's cause.

Great leaders surround themselves with great people. They know that they cannot do everything themselves; there is a need to surround themselves with people who have the right talents. As Jim Collins says, "To build an effective team you have to get the RIGHT people on the bus." The "right people" means people with the talents that align with the job. In other words, you not only need to get the right people on the bus but also you must get the right people in the right seats on the bus. If there is not a seat for them, you must get them off the bus. Search for people's strength zones—the areas in which they can achieve successful experiences and benefit the company. Once you have the right people in the right positions, you should focus on putting your best people on your biggest opportunities, not your biggest problems. Leaders always use their best people in roles where they can multiply the growth and profitability of the company.

Win at Biz Scorecard

Consider asking an employee the following question: "If you could have your choice of any job, what would it be?" Whenever you can move a person from a job they dislike to a job they love, it can be a life changing experience for the employee as well as a production benefit for the organization.

Good leaders also understand that they need to compensate for their areas of weakness by surrounding themselves with people who have the right talents. They understand that their potential as leaders is limited to the talents of the key people closest to them. A strong leader builds relationships with people who add value to both themselves as a leader and the organization, contribute to raising the performance bar for other key member, display high standards of quality and achievement in their work, and possess the character, responsibility, and maturity to keep building on their leadership skills.

John C. Maxwell offers guidelines for determining which people would make a solid addition to your circle of key employees.

1. Do they have influence with others?
2. Do they possess strengths in your areas of weakness?
3. Do they add value to the organization?
4. Do they positively affect the other key members of your inner circle?

Win at Biz Scorecard

Surround yourself with creative people and let their ideas inspire you. As a leader, you cannot succeed alone. The talents of the key people closest to you determine your potential. Have you surrounded yourself with people who can increase the success of your organization?

Multiply Your Impact by Training New Leaders

Effective leaders multiply the growth of their organization by turning their key followers into leaders. Think in terms of growing your organization by teams instead of individuals. When you as a leader can only affect the growth of an organization by the people you can touch directly, your effect is limited to those numbers of people. On the other hand, for every leader you develop, you can affect additional people in the organization far beyond your reach. As a result, for every follower you develop into a leader, you can multiply the number of people you touch as well as multiplying the effect on the growth of the organization.

Develop leaders by promoting from within the company. This approach pays huge dividends by motivating employees with the opportunity of personal growth, and ultimately prolongs careers and reduces turnover in key positions. If you are going to retain quality people, you need to provide personal growth opportunities and challenges. What could be a better way to provide a company with potential leaders than on-the-job-training?

When you analyze the return on the time spent working with your followers, consider the following results: When you work with the bottom twenty percent of your followers, you are spending your time attempting to improve their weaknesses. When you work with your best followers one-on-one, you can work on developing the strengths of one individual at a time. But when you work on teaching your best followers leadership skills, you are spending your time affecting every person that this newly developed leader touches. John C. Maxwell points out the following qualities for which to search when you are considering a potential leader:

- A positive attitude
- Loyalty
- A desire to self-improve
- An inclination to enlarge and encourage others
- A creative thinker

Developing followers into leaders requires you to foster a work environment that teaches leadership skills, offers new responsibilities and opportunities, and empowers people to make decisions and deliver outcomes. As we've emphasized in other Win at Biz books, written training programs can harness the people-power in an organization.

For instance, in our lawn maintenance service, business we hire a number of young, seasonal field technicians who require a significant amount of training and supervision to deliver the company's expected level of customer service, image, and production outcomes. The initial training program includes motivational speaking and listening skills. We teach the importance of not only using the proper speaking and listening skills with subordinates, but also the importance of using these skills to help raise the level of the performance of their fellow supervisors. We also spend time discussing the importance of communicating recognition. The balance of the introductory leadership training focuses on how to lead by setting the right example with your own actions as well as a session on how to serve the needs of the new employees.

An essential piece of any leadership training program also requires teaching the power of sincere concern for your subordinates and their potential. Emphasize that becoming a leader in the eyes of your subordinates requires putting their needs ahead of your own. Nor would such a training program be complete without teaching the benefits of a positive attitude, so trainees should also study the positive and negative implications of attitude.

In our experience, we have found that these topics are a good place to start and that they have provided the company with a good return on our investment in training time. The following quote by Arlene Lenarz, a Mary Kay national sales director, is a winning philosophy: "We don't use people to build our business; we use our business to build people."

Win at Biz Scorecard

John C. Maxwell said, "The bottom line in leadership is how far we advance others. ... It's sharing yourself, your influence, position, and opportunities with others for the purpose of investing in their lives, so they can lead at their best." Do you have a program in place to develop your key followers into leaders?

Empower, Inspire, and Develop

Successful leaders know that in order to achieve maximum productivity, where everyone on the team is working towards common goals, you must empower people. Leaders understand that you need to manage the systems, not the people. You must manage the outcomes and empower people to find their own best ways to achieve those outcomes.

In the natural course of becoming a leader, you have to make the transition from *I* to *we*. Before you can empower people, you have to make this transition. Leading is not about you; it's not about controlling everything, accomplishing individual goals, or about personal success or recognition. You must always remember that the more power you have, the less you should use it. Every time you exert power, you take something away from others. Once you make the transition from *I* to *we*, you will be able to unleash the power of others to pursue shared passions and goals.

Once you make the transition from *I* to *we*, you can engage your people in an open, effective debate about your three circles of success discussed in the section, "Develop a Clear Vision," at the beginning of this book. You can decide together what the company stands for in the marketplace and what it is passionate about; what the company can be best at in the world; and what fuels the company's economic engine. Once you have identified your circles of success—the three places to focus your actions—you can create an open debate with your followers. Successful leaders understand that in order to maximize productivity towards common goals, people must be given an opportunity to be heard. People need to feel that they are contributing. Successful leaders create a culture of openness where everyone can speak their minds and speak the truth without worrying about blame. Effective leaders lead these discussions with a lot of questions, and practice attentive listening habits that reassure people, saying, "I am interested in your ideas and what you have to say."

The open debate with your followers is part of the process of empowering your followers. If you currently are not allowing your subordinates to contribute and be heard on a regular basis, you are not leading. If you are not empowering people to act on their own ideas, where there is a continuous opportunity to learn, they will not work toward shared passions and goals. If you are not open to ideas and experimentation, the company will not be successful at adapting to change.

In a *Time* magazine article enumerating his leadership qualities, Nelson Mandela said that in order to be a great leader, you need to lead as a herdsman; you always get your best results when you lead from the rear. If a leader is going to be successful at engaging followers to work towards shared goals, it is only reasonable to expect people to support that which they have had a voice in helping to create.

Techniques to Empower Others

1. Build trusting relationships within the group by backing up your spoken words with action. To be successful at empowering you must first build trust.
2. Align everyone's passion and purpose in the same direction. Successful leaders accomplish this by uncovering and understanding each individual's personal passions and then showing him or her how to fulfill these passions by achieving the company's mission.
3. Treat people with respect and as equals.
4. Get people involved in the decision-making process.
5. Challenge people by asking tough questions and raise their level of thinking to a higher level.
6. Hold people responsible to deliver outcomes and expect people to exhibit self-discipline in their actions.
7. Allow people to use their own creativity to discover the best way to achieve the desired outcomes for which they are responsible.
8. Give people an opportunity to learn new skills and tasks and empower them to go to the next level.
9. Encourage personal growth by assigning them more challenging tasks as they are ready.
10. Show up and be seen so you are accessible to coach and counsel.
11. Be an active listener to demonstrate that you are genuinely interested in the questions, suggestions, and ideas of others.

Win at Biz Scorecard

John C. Maxwell summarizes the essence of empowerment as employees making decisions concerning that which most directly affects themselves. When employees are engage in this manner they will "buy-in" and take ownership of everything they're doing. Are your followers engaged in the decision making process? Are the empowered to act on their decisions to improve the outcomes for which they are responsible?

Put Leadership into Practice in a Changing Economy

We have been discussing the many qualities of successful leaders. Some of the more important attributes we discussed are as follows: developing a vision for where the company is going, enlarging your followers, building trust, modeling sacrifice and leading by example, delivering success by demonstrating determination and persistence, using your employees' strengths, and empowering your followers. Once your foundation as a competent leader is built, to achieve success you will be required to use your skills to lead effectively. This will require the ability to delegate, prioritize, adapt to change and consider the optimum timing to initiate action.

Delegate Effectively, Lead Effectively

It goes without saying that in order to empower others, successful leaders need to delegate. It's part of giving budding leaders new and more challenging tasks. But what should be delegated?

The tasks you delegate will vary depending on the size of your company and on your own strengths and weaknesses. Struggling leaders who have not yet made the transition from *I* to *we* will have many reasons why they cannot delegate a task. The excuses often go something like this: "No one else is capable of doing the job as well as I can," or, "I can do the job myself in less time than will take me to explain it to someone else." Effective leaders not only delegate but they also empower, which distributes responsibility and authority to others. Leaders will then hold these people accountable for their performance.

Effective delegation also frees you up to focus on running the business. To quote a phrase from the book *E-Systems* by Michael E. Gerber, "You have to work *on* your business not *in* it." Empowering others to run the day-to-day operations is what allows leaders to look out to the horizon and focus on future positioning of the company relative to competition and its customer's needs. Such tasks might include final hiring decisions, the continual development of operational systems, employee communications, motivation, networking, financial planning, company positioning, presentations to financial institutions, developing an annual marketing plan, and the planning and development of annual company goals.

Win at Biz Scorecard

In order to lead and work on your business rather than in it, you need to be effective at delegating responsibilities to others.

Prioritize Tasks for Impact on Bottom Line Performance

Successful leaders prioritize their tasks—and their followers'—to maximize productivity and growth. Prioritizing tasks is an essential part of leading, and it requires a leader to think ahead, build a list of tasks that align with current goals, and consider which tasks will have the most immediate effect on the bottom line.

Remember, being busy does not equate to productive work that will affect sales or bottom line growth. Every effective business plan needs a well-thought-out plan of action points. These action points need to be prioritized in order of importance relative to their immediate impact on the outcome. The 20/80 rule will almost always apply: Twenty percent of your action points on your list will produce eighty percent of the results, so it only makes sense to focus your efforts on the top twenty percent to receive the best return on your time. Once you have determined the tasks upon which to concentrate your efforts, select the items for yourself that align best with your strengths and delegate the remainder of the tasks to the strengths of your followers.

In order for a leader to maximize effectiveness, it is also important to analyze how much time he or she should be allocating to various areas of the business. For example, the prioritizing may look something like this:

- Developing marketing plans: 20 percent of time
- Developing key people: 20 percent of time
- Developing and improving operating systems: 5 percent of time
- Networking: 10 percent of time
- Planning and goal development: 10 percent of time
- Financial planning and budgeting: 10 percent of time
- Final hiring decisions: 5 percent of time
- Product enhancement and development: 20 percent of time

Speaking from my own experience, prioritizing has always been one of my most useful management tools. What can be more important than forcing yourself and your staff to focus on how you should be spending your time most productively? Prioritizing helped me make one of the most difficult and important decisions of my business career, closing Daltons Furniture. As I analyzed how I was spending my time, it became obvious that I was spending a disproportionate amount of time on a business that was not contributing proportionately to our economic success.

Win at Biz Scorecard

Great leaders are effective planners and remain focused on committing each person's time to tasks that will have the biggest impact on the highest priorities. To maximize productivity, prioritize your tasks, delegate effectively, empower, and lead passionately

Predict and Prepare for Change

Leaders make tough decisions and put them into action. Change is a continual process of survival and success in the fast-paced, ever-changing business world we live in today. Improvement and growth is impossible without change. True leadership requires a capacity for change, and the continual collaboration with the end user to determine what they really want. With the economy and customers' needs ever-changing, leaders understand that their business model must be continually reinvented. It's mandatory to long-term success.

For instance, consider some of the situations that you may have read about in the Book 1 supplement of the Win at Biz series, *"If I Knew Then…": Case Studies that Could Save Your Business.* Amcom's market of reconfiguring and selling mid-sized computers in the eighties completely disappeared in the nineties. Plantscape would have gone out of business if it had continued with their retail garden and landscape business model. DecoPac was developed out of a three-generation retail baking business that no longer exists today. Without leaders willing to adapt to change, these businesses would not have survived.

It can be costly to initiate a change that ultimately becomes a mistake—but remember that change will always cost you something, if not monetarily, then in time or energy. John C. Maxwell offers an excellent checklist before initiating any change.

1. Will the change benefit the followers?
2. Is the change compatible with the purpose of the organization?
3. Is the change specific and clearly stated?

4. Are the top 25 percent of the influencers in favor of the change?
5. Is it possible to test the change before making a commitment to it?
6. Are the financial and human resources available to make the change?
7. Is the change reversible?
8. Does the change offer both short- and long-term benefits?
9. Is the timing right to initiate the change?

To lead an innovative company will require leaders at the top to encourage risk-taking, experimentation by trial-and-error and an atmosphere where failure is accepted and learned from. Mike McGlynn, founder of DecoPac, uses the expression, "Failing your way to success." Mike is a pro at encouraging his employees to participate in expressing their ideas and empowering them to implement those ideas in the shared goal of seeking company goals.

Win at Biz Scorecard

Competition is continually changing your business environment. In order to capture new market share while maintaining your existing market share, leaders must constantly re-evaluate their business model. Have you objectively re-evaluated your business model in the last twelve months?

Consider Timing

Adjusting to changes in the real world of business is necessary to survive. Yet even the best ideas need to be accepted by others to become a reality. Many times the threshold for others to accept the change you feel is necessary may be received more willingly at a later date. More often than not, the success of your ideas will require some preparation on your part.

What comes to mind are learning experiences of my own past business experiences. For example, before introducing required financial changes to a commission program for salespeople, I needed to wait until the people who would be affected by the change were engaged in the process, educated on the numbers, and had enough time to understand the benefits of the change in their own minds. Timing is critical! Many of my own good ideas have failed simply because they were introduced prematurely. For instance, we made the decision to expand our target market and advertising program, but the timing was poor simply because we did not have all of the sales tools in place to convert the extra demand into satisfied customers. I recall an innovative, interactive, web-based training software product we developed for small businesses. The product was not received well because the product was introduced before the use of web-based personal computers became common among small businesses. It would have been effective had our timing been better.

When we look back on the great leaders in American history, we see the same principles at work. For instance, President Lincoln utilized uncanny leadership skills and judgment when he introduced the Emancipation Proclamation, granting the slaves freedom during the Civil War. Lincoln had written the document a full year before he introduced it, waiting patiently for the right timing when the mood of the country and

Congress was ready to accept this controversial legislation into law.

On the other hand, the right decision introduced at the wrong time can be received by resistance and ultimate failure. Timing is as important to a leader's success as making the right decisions. Be sure to consider the timing as you plan to introduce new ideas, actions, or change.

Common Leadership Mistakes

1. Allowing the vision to fade.
2. Spending too much time on details rather than on goals to achieve the mission.
3. Making yourself scarce.
4. Changing the key objectives too often.
5. Not modeling what you say.
6. Failing to identify your own weaknesses and fill with others' strengths.
7. Not assessing people's talents well or aligning others talents with the right tasks.
8. Assigning job responsibilities without empowering people to make decisions.
9. Placing results ahead of people's needs.
10. Hiring too fast and firing too slow.
11. Recruiting followers rather than potential new leaders.
12. Leading with a top-down attitude rather than serving from the bottom up.
13. Being a dictator when making decisions rather than soliciting input from others.
14. Failing to take the time to listen to your followers.
15. Refusing to delegate and prioritize effectively.
16. Placing tasks and paperwork before people work.
17. Letting personal agendas get in the way of organizational success.
18. Only seeking information that supports your own views.
19. Inability to control anger.
20. Seeing disagreement as disloyalty.
21. Not talking to people affected by a decision.
22. Taking the credit and handing out the blame.
23. Lack of clear and consistent communication with followers.
24. Lack of giving consistent appreciation and recognition.
25. Inadequate coaching.
26. Hiding mistakes rather than learning from them.
27. Focusing on problems rather than fixing the process.
28. Not following your gut instinct.
29. Failing to invest time to grow your own leadership skills.

Win at Biz Checklist

✔ Do your everyday words and actions create a positive culture that trickles down through your followers to create positive experience for your customers at every point they touch your company?	☐ Yes	☐ No
✔ Have you determined a vision for the company, charted a course of actions, and communicated the vision effectively to your followers?	☐ Yes	☐ No
✔ Do you stay focused on the objective while reviewing the results and shortfalls regularly?	☐ Yes	☐ No
✔ Do you love what you are doing more than anything else?	☐ Yes	☐ No
✔ Have you created an atmosphere of trust with your employees and everyone who comes into contact with your company?	☐ Yes	☐ No
✔ Do you focus on building authentic relationships with your followers by sincerely showing you care about them?	☐ Yes	☐ No
✔ Do you convey positive communication and sincerity to enlarge those around you?	☐ Yes	☐ No
✔ Have you developed the answers to your "three circles for success" so your followers are focused on shared goals?	☐ Yes	☐ No
✔ Do your passions serve to help others?	☐ Yes	☐ No
✔ Have you been successful at rallying your followers around common passions, goals and interests?	☐ Yes	☐ No
✔ Are you driven to succeed? Are you willing to make personal sacrifices?	☐ Yes	☐ No
✔ Are you committed to learning and self-improvement?	☐ Yes	☐ No
✔ Do your daily words and actions as well as your company's culture succeed at empowering your followers?	☐ Yes	☐ No
✔ Do you regularly conduct open debates and allow group decision-making in order to give everyone an opportunity to be heard, determine the best actions, and work toward shared goals?	☐ Yes	☐ No
✔ Have you surrounded yourself with the right people with the right talents capable of adding success to your organization?	☐ Yes	☐ No
✔ Do you conduct training programs committed to teaching your key followers to become effective leaders?	☐ Yes	☐ No
✔ Are you setting the right example and modeling leadership with your actions while being accessible and visible to your followers?	☐ Yes	☐ No
✔ Are you solution-oriented rather than problem-oriented?	☐ Yes	☐ No
✔ Do you pass recognition for success on to others?	☐ Yes	☐ No

Win at Biz Checklist

✔ Do you hold your followers accountable?	☐ Yes	☐ No
✔ Do you delegate the right jobs based on your personal strengths and weaknesses?	☐ Yes	☐ No
✔ Do you accept change and make the tough decisions that are necessary to succeed?	☐ Yes	☐ No

About the Author

David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✓ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!