



Focus

It may be summer, but it's chilly out there – May, 2007

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Downturn in Employment Creation with only 7,787 new jobs in Small Business in 2007, compared with 50,243 in 2006.

“The results of the SFA Annual Employment Survey 2007 are the worst on record, with just 7,787 new jobs being created in small business this year. The survey shows that the labour market is now less rigid; those companies who are prepared to create jobs continue to be hindered by lack of skills, lack of response to advertised vacancies and unrealistic wage expectations. There are now serious structural flaws in the Irish business model, which we must address if we are to maintain employment. Failure to do so will result in increased redundancies and large increases in unemployment.” Patricia Callan, Director, Small Firms Association.

Ms. Callan said “the results clearly demonstrate that high inflation, high labour costs and high domestic costs in electricity, gas and local authority charges are impacting on the ability of Irish business to create jobs.”

Mortgage interest underpinning inflation rate

IBEC say that rising mortgage interest rates remain the key driver of inflation, while energy prices were also higher in the month. Inflation remained at 5.1% in April according to data released by the CSO.

Commenting on the figures IBEC Senior Economist Fergal O’Brien said: “The main drivers of inflation remain external to the Irish economy, in the form of rising ECB interest rates and a recent spike in world oil prices. It now looks like it will be later this year before the ECB reaches the top of its current tightening cycle, but once it does inflationary pressures should ease considerably. Higher euro area interest rates will also lead to a stronger exchange rate against the dollar, which will further reduce price pressures in the Irish economy.”

Mr O’Brien noted that there was some positive news for consumers in the fact that inflation in some sectors such as health and other services had eased in recent months.

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Sales reps need a plan

Effective selling requires a solid plan of attack.

Without a plan, sales reps have no choice but to do their own thing – which may not necessarily be what your company needs them to do to achieve its sales targets. Undirected sales reps are likely to be too often found in the office or out on haphazard travel, spending time with the friendly accounts and pushing the easier to sell (but not necessarily profitable) products.

With a good INDIVIDUAL plan that has some discipline built into it for the rep the chances for sales success increase dramatically and ensure the focus needed at the individual level to get the right things sold to the right customers.

A good sales rep plan can be built if you keep these things in mind.

1. Base it on business goals, not whim - the company sales plan must be clear on what needs to be achieved. That puts the onus on you to have done your homework and developed an annual strategic plan for marketing that includes sales and gross profit goals and strategies for increasing sales to current customers and developing new ones. If management doesn't know what it wants from its sales team how can the sales reps know what is expected of them? How can you measure their effectiveness? How reasonable is it to complain of their ineffectiveness?
2. Include strategies to guide action - too often sales reps are given no more direction than to "*Get out there and increase sales by x%*". If management 'planning' is at the level of just tacking on an x% increase in sales volume in the budget without having developed the strategies for achieving it, that doesn't provide any direction for sales reps. In this situation reps are likely to fall short of their goal even though the budgeted increases may be realistic. Their sales plan will start with some strategic objectives but must then detail the activities expected of them that will allow them to achieve these objectives.

Each rep needs their own plan covering which customers they are to contact, when, how often, and so on.

A business that sells to other businesses for instance ought to have decided what sort of company is the best one to approach - will your product or service only appeal to large companies with a certain level of turnover? Or perhaps it's more useful to target new or well established companies; fast growing companies, or ones who have slow and steady growth? What about industry sector, number of employees and location? The reps need to know your preferred targets.

In B2B you also need to decide on the person they will need to contact/persuade. Is this the Chief Executive, a Managing Director or a head of department? And will you need to talk to somebody else first before you get to this person?

If the rep is in a territory making calls it is often helpful to create a routing plan that directs him through the territory on specific days and weeks to make the most effective use of time and minimise backtracking. Planning this aspect can help significantly in getting reps out of the office and into the field.

Other things that could be set into their plan to be accomplished in a given period (such as each week or month) are number of client phone calls to make, number of contacts, appointments set, appointments conducted and value of sales to close.

3. Monitor results - since the plan has covered the goals and strategies down to task level, such as which customers or prospect groups are going to be approached, how frequently and so on, then each activity and the resulting sales can be monitored and checked to see if they are reaching the plan.

Don't make recording activities a burden to the rep but recognise that tracking a few key performance indicators is essential to keeping your company sales plan on track and will form the basis of your assessment of a reps performance. Reviewing can take place on a monthly basis. Sales management excellence involves reviewing the results against the plan to determine missed opportunities and areas for improvement.

A genuine sales effort requires regular planning, tracking, and review to achieve the targeted results. Every sales rep requires their own action plan to direct their day-to-day activities and set up their accountabilities. An individual plan will force a rep to become more disciplined in his or her approach to selling and provide better opportunity for successful selling.

Avoid a retirement crisis

At some stage every business owner must sell or pass on - transition from - their business. Many 'transitioners' have predicated their post exit plans on having a nice nest egg from the sale of their business. But here's the hurt – it is estimated that as many as 40 per cent of baby boomer owners plan to leave within the next five years. That means we may see a glut of small businesses for sale making it increasingly difficult for SME owners to sell their business at the price they had been counting on.

The fact is, 'hoping' is not a strategy. Hoping won't create value in the business. A strategy involves actually being in control of your business, being aware and goal focused, and having a plan for an organised and profitable ending.

So what will it really take for a business owner to successfully extract themselves from their business? To leave under their own terms; when they want to; and get the price they need?

Strategically decide WHAT you want to have happen

You can't develop a transition plan without having your end objectives in mind. You need to start by considering your endgame and making some specific decisions:

- How you would prefer to transition - sell, pass on to family, etc
- What you want to do after transition – specifically, so you can set a budget for it

- Just how much money you will need to leave with to make your post transition plans a reality – not just ‘as much as I can get’
- When you want to go – this determines how much time you have left to make things happen in the business

Plan HOW you are going to make it happen

Strategies need to be assessed and specific plans developed for how they will happen. For instance, precisely how to structure the sale to a third party for top price after taxes; or just how you will transfer your business to family members, co-owners, or employees while paying the least possible taxes and receiving the greatest financial security.

The obvious option may not necessarily be the best. Structured withdrawals staggered over a number of years where the owner takes less than market price up front but remains under contract for some time to help out during changeover, maybe in a part time capacity, can add up to a bigger sum than simply taking the first cheque offered. That’s the value of planning things out.

Actually GET ON with making it happen

Making it happen means taking each of the strategies in the plan and implementing what needs to be done to achieve it. Typically the major one will be to increase the value of the business. Can you imagine putting your home on the market without getting it ready? Not likely – you know it needs to look good and be in good repair to bring the best price. The equivalent with businesses is called grooming for sale. Grooming means looking at ways to improve the value of the business – developing a bigger market share for instance and improving productivity.

Secondly, the business needs to be in sale ready condition. At the time of sale the buyer will run a thorough due diligence check of your business records to satisfy themselves of the viability of the business and the validity of the claims you have made about it. You need up to date financial records and several years’ backup records that all make the business look good.

The third key factor is taking YOU out of the business. If most of the value of the business is predicated on your involvement – your own knowledge of processes, your own ways of doing things and so on - then it isn’t worth much without you. Instead, you have to be able to demonstrate that yours is a turnkey operation that the buyer can run as effectively as you. One way to do this is to have trained employees and systemised processes in place that allow the business to run without your constant oversight.

Transition planning can bring immediate benefits too

Even if retirement seems a long way off and even though some things are going to change your ultimate goals as time goes by, the fact is that because transition planning revolves around taking steps to improve the value of your business there will usually be some immediate benefits from starting the process.

- More profit
- Higher efficiency
- Greater peace of mind
- Clearer focus

To develop a viable transition plan professional guidance is essential. The source of that support may be your accountant, solicitor or business advisor.

How to fire someone

Sooner or later it becomes the unpleasant task of a manager to have to terminate someone's employment. The employee can be hit hard too. They can be personally shocked and hurt. It will likely disrupt their life and throw out all their certainties – such as where the mortgage repayment is coming from next month. In fact the situation is one of potential high drama and maybe even dire consequences if improperly handled. When it happens you need to handle it legally and sensitively.

Handling dismissal sensitively

First, be very sensitive to timing. Firing someone the day their child went into hospital for an operation is one way to ensure resentment and to arouse a sense of unfairness that could lead the employee to start looking at ways to get back at you.

Firing isn't a public event or one you can delegate. The news should be delivered personally in a short private meeting. It is wise to have one other respected or impartial person present as a witness to the proceedings. In an age of litigation that's the best measure you can take to protect yourself.

If you want to extend some empathy by offering praise of any good action then be judicious. It may sound callous, but overdoing praise in this situation can have negative repercussions ranging from creating an unfounded hope that the decision can be reversed through to use in court as evidence of the unfairness of your action.

The timing and nature of the departure announcement to the rest of the team and the employee's day of departure must both be settled at this meeting. For both actions the best strategy is 'as soon as possible'. The shorter the time, the less opportunity for rumour to spread or for the situation to upset regular work. This is not heartlessness – it doesn't do the departing employee any good to be hanging around in these circumstances.

Handling dismissal legally

Stick to the facts. Those facts need to be the legally justifiable reasons why you are terminating the employment contract. "*I don't like ...*" or "*You don't have the right attitude about X, Y or Z*" won't cut it in court. The best favour you can do yourself is to get advice on basic labour law, particularly as it relates to such things as discrimination and unfair dismissal.

And you need to be able to back your legally justifiable reason with chapter and verse on the actual incidents that demonstrate the employee has breached regulations or failed to live up to performance standards. That means you need to have, and maintain, a good personnel record management system to track the history of the incidents the employee has been involved in and the warnings or whatever you have given them. Implementing a formal performance reviews routine, whereby you can record the discussions you have had about performance shortfalls, is a good start. In the context of dismissal these records provide the justificatory evidence that has bought you to this action. Documented history of poor or illegal behaviour is what a court will look for if the matter ever goes that far.

Terms of severance such as pay and benefits should be detailed and accurate. An employee who feels they are being cheated as well as fired is as good as in court.

If you feel unsure of any aspect of the firing process then call your solicitor and take advice. Their most expensive advice will likely be less than a court case will cost.

Taking control of profit

'Profit' is what's left over after you've paid all your expenses. The important thing to note is that profit is '*what's left over*'. PROFIT IS A RESIDUAL. It is a consequence of what happens in and to your business. Some of these things are within your control and some of them are outside your control. If you're going to have any effect on your profit, you have to focus on those things over which you have control.

As it turns out there are four specific factors that determine profit and over which you have some degree of control. These are:

1. The PRICE you charge for the products and/or services you sell.
2. The QUANTITY (or volume) of products or services you sell.
3. The costs you incur directly in producing or buying the products and services you sell. These are referred to as VARIABLE COSTS because they increase or decrease as your sales increase or decrease.
4. The costs you incur whether you make any sales or not. These are called FIXED COSTS because they don't change with changes in sales volume, at least not on a day-to-day basis.

Many business advisors offer a profit improvement potential analysis service that works by running 'what if' scenarios on the business' figures to demonstrate how significant improvements to profitability can come about from just small changes in these four factors.

These usually start from using your current figures as base and estimating what would happen with a small increase or decrease. In the table below let's assume the current figures are in the BASE column and make a 5% alteration to give the figure in the RESULT column.

In this example, a modest 5% improvement in each factor (without any consequential unfavourable impact on any of the other three) would more than double your profit from €1,000 to €2,190.

	BASE	CHANGE	RESULT
Price	€100	5% increase	€105
Sales Volume – units	100	5% increase	105
SALES	€10,000		€11,025
Less VARIABLE COSTS (€60 each)	€6,000	5% decrease (€57 each)	€5,985
Gross Profit	€4,000		€5,040
Less FIXED COSTS	€3,000	5% decrease	€2,850
NET PROFIT	€1,000		€2,190

This is a 119% improvement in profit and from only a 5% improvement in each of the factors that affect profit.

It is evident that a relatively small % change in each of the four factors has a staggering effect on the resultant profit. And of course the reverse is also true. If you discount your price, allow your sales volume to fall, fail to control your fixed costs and let your variable costs get away from you, even by small amounts, you can end by destroying a profitable business.

Obviously to make the increases happen you need to review your operations in the areas that affect the figures – cost cutting, process improvement, more active marketing and so on. But the results can be well worth the effort and cost of implementation.

Regular Pieces

How to Make the Most of your Newsletter

Be sure to read each article with the mindset 'How could this apply to our business.' Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member. To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We're here to help you get started.

Memorable Quotation

"Lots of people confuse bad management with destiny" – Elbert Hubbard

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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Do you have a question you would like to put to one of our advisers? Why not get a free opinion – simply email us at; enquiries@focusbusinessadvisers.com. We'll respond as soon as we can and hopefully be of assistance to you.

Contact details



Focus Business Advisers Ltd.

Arena House, Arena Road,
Sandyford,
Dublin 18

T: (01) 213 0888

E: enquiries@focusbusinessadvisers.com

W: www.focusbusinessadvisers.com

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