



**SHEPHERD
& GOLDSTEIN**
*Business Consultants and
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Grow your Business

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I Can't Shake This Cold!

There is no cure for the common cold, just treatments to ease the symptoms. The cold has to run its course and over time the infected person recovers. The same holds true for the current economic "cold" - over time, the economy will recover. As business owners, the only treatment for the economic "cold" is a well thought out plan and the diligent execution of the plan's strategies. In this edition of our newsletter, we offer you additional strategies to consider for your plan to make the symptoms of the economic "cold" bearable — S & G's version of chicken soup, so to speak.

Joseph Vajda, MBA
Editor

Keeping Down Payroll

In soft economic times, cutting back on payroll usually means laying-off employees. Many of you have already undertaken this unpleasant, but necessary step. As the economic slowdown continues, some of you may be contemplating a first round of lay-offs and others may be considering another round.

As a tactic, laying-off employees works, but this strategy reduces your productivity and can end up costing you in the long run. You will have lost any investment you made in their training, lost their knowhow and will be stuck with the cost of hiring a replacement sometime in the future when business starts to pick up again. So avoid it if you can. If laying-off employees is the only option, give careful thought to how you can maintain production and customer service so as not to plunge into a downward spiral of poor service leading to increasing customer desertion. Here are some suggestions for how to slim the payroll burden.

Slim the payroll

Reduce pay and eliminate raises: a reduction in pay won't be popular but if the alternative is redundancies among the employees they might well agree to go for

it. At least they keep their job (and you save on payroll) until business picks up again.

Cut back on work hours: this will reduce payroll without entirely losing the employee. This can be done by decreasing daily hours or reducing days per week or moving to so many days per month. A reduction in hours may be viewed as preferable to having no job whatsoever. Sharing the pain among employees will be better for morale and you get to keep people on hand for when times improve.

Replace monetary with nonmonetary incentives: offering the use of your vacation home or extra time off in lieu of a money bonus can show that you understand your employee's disappointment in not receiving a cash bonus but want to reward them for their hard work.

Encourage employees to take time off without pay: canvass employees for those who would be agreeable to taking a period of time off work without pay. The deal must be that they are guaranteed their job back at the end of the specified period.

Incentivize employees to leave: the least unpleasant way to downsize is to let natural attrition take care of the job by not replacing employees who quit or retire. If normal attrition will be too slow to reduce numbers to what you need/can afford, then offer employees an incentive to terminate: grant early retirement with full retirement benefits or offer an attractive severance package. Make clear this is for this occasion only.

Make use of independent contractors: hiring is a long term commitment. Until things improve, soak up extra workload using independent contractors instead of putting on workers.

Insource: maybe some jobs you are currently outsourcing can be economically brought back into the workplace to be done by underutilized employees. Be careful not to breach employee or supplier contracts. Do this only

if there is a distinct cost/benefit advantage over the outsourcing deal.

Reduce the cost of producing payroll

The actual cost of producing the payroll (calculating pay, producing checks or making deposits and keeping track of employee information) is itself an area where savings can be made.

Outsource payroll: organizing each payroll is a time consuming, (= costly), process with an element of danger added because of the possibility of making a mistake with the regulations and procedures that need to be navigated and the forms and returns to be filled in to get it right. It may be more cost effective to outsource payroll to an online service provider who will carry out all processes in accordance with the latest regulations, insert this information into the correct forms and get salaries deposited into your employee's bank accounts.

Use direct deposit for salaries: a good way to save money is to use direct deposit of payroll (DDP) instead of issuing paper payroll checks. There is a significant cost differential between an online transaction and the processes around preparing and issuing checks.

Extend the payroll period: switch from a weekly to a biweekly or monthly payroll period to reduce processing costs.

The best rule of thumb for implementing any restructuring of work practices is to be honest with employees upfront and lay out the reasons that make the changes necessary for business survival. You also need to be mindful of the terms of existing union agreements and work with the union to achieve a conflict-free alteration of procedures. And always take expert advice in labor related decision making to avoid breaching labor regulations.



Grow Your Business By Increasing Process Efficiency

In previous issues we have looked at three of the four ways (and there are only four) you can grow your business: increase the number of customers of the type you want to have; increase the number of times a customer comes back to buy from you; increase the average value of each sale you make. In this issue we cover the fourth and final way, increasing the effectiveness of each process in your business.

While it's the last, it is by no means the least, especially in today's economy. In fact this is the step that ties it all together. Getting value from the first three ways can only come about if the processes involved in them happen efficiently within your business. Without changing and improving the way your business operates, it will be very difficult to successfully implement the growth strategies we've discussed previously.

When you think about it, a business is nothing more than a group of processes – production, marketing, selling, managing the finances and so on – and it's the actual quality of these processes that determines the quality of the outcomes. So increasing the number of customers will be reliant on the effectiveness of your marketing processes; increasing customer retention on how well you handle customer service processes; increasing the average value of sales on how good your selling process is, and, in general, making all other processes, such as inventory management, cost efficient so as to save money (increase profit) and minimize waste.



One way of pinpointing where your operations can improve is to take the time to really investigate how the key processes are operating so as to identify inefficiencies and performance failures and establish the real underlying causes for them. For instance, a business may not be getting enough new customers. The immediate reaction, in the absence of knowing exactly why, might be a shotgun approach – increase marketing expenditures and widen it out to all sorts of channels to attract more leads. In fact, take a little more time to investigate and it may turn out that the business is getting plenty of leads but is failing to convert many of them. That's a sales process that needs improving, and the solution might be in getting sales reps to perform more effectively or getting back to telephone inquiries faster, rather than throwing more money at marketing.

The fact is most owner/managers don't see their business as a series of processes. But that's exactly what they are and each one needs to be analyzed at some stage to see how efficiently it is working and if the right drivers are being measured, for

instance, conversions per sales rep and average time to respond to phone calls in the case above, so that performance can be tracked and the real reasons for poor performance identified.

Deciding what drivers to track can sometimes be a bit involved and it's good to work out which ones are relevant to your particular business in conjunction with a business advisor. They'll usually start the ball rolling by giving your business a 'health check' to 'diagnose' just how well it is currently performing.

A business health check can look at both what is happening in the business world around you and at your in-house operations. You may be tempted to look just at in-house operations, but consider how changes in technology, for example, could affect your production methods, or upcoming legislation in, say, managing pollution, might alter the way you need to handle waste. Those things may not necessarily be negative – sometimes a review of the wider world opens your eyes to new opportunities as well.

The Four Ways of growing a business work best when used together in an overall strategy. Think about the concept of synergy, the whole is greater than the sum of its parts. The mistake many businesses make is to focus on just the customer/sales processes, and thereby miss out on significant growth opportunities from making other processes more cost efficient as well.

Handling Customers And Suppliers Through A Downturn

The global economic slowdown has hit businesses hard, making it an anxious time for small business owners. You may not be able to recession-proof your business entirely, but there are a number of actions you can take to improve your chances of weathering the downturn in business activity and coming out the other side. Among the most important is how you continue to relate to the people you rely on to stay in business – your customers and your suppliers.

Customers

With consumers cutting back their spending level, encouraging existing customers to continue dealing with you is a smart move. During a downturn they may be facing financial challenges of their own so, first up, consider if there are special terms or value-adds you can offer that will make it easier for them to buy from you during this time. On the other hand, this is also the time to review customer profitability and 'fire' those who aren't showing a return commensurate with the effort you are putting into servicing them.

Collecting what's owed to you within a reasonable period can present a real challenge during an economic downturn. Send your initial invoices with a pre-addressed and stamped remittance envelope to encourage prompt reply. Use the

phone to chase accounts as they go overdue – a diplomatic telephone call is a lot harder to ignore than an impersonal reminder statement that turns up in the mail. Changes in the billing cycle can improve matters – billing a quarter of your customers every week rather than billing everyone at the end of the month can even out the flow of funds coming back into the business.

While it's tempting to accept any business in slow times, a high risk customer can end up costing you money. Run a credit check before accepting new accounts and ensure the customer understands your credit terms. Review your credit terms to see if they are in line with the industry average – maybe they need tightening up to improve cash flow. Reducing the credit period may lose you some customers, but this might be compensated for by the majority paying sooner.

Often, the first cost to be cut in a downturn is the marketing budget. Consider, though, sales only follow marketing. Monitor the effectiveness and profitability of your marketing campaigns carefully and only continue the most effective. Reduce the size of your ads so you can run more without increasing your total cost. Introduce a referrals program – use low cost communication tools like email, postcards or personal phone calls to let customers know you are interested in receiving referrals from them and what reward they will win for any profitable business they send your way.

Another temptation is to decrease prices. While it may be strategic to offer discounts or special deals to especially valued customers if that's what it will take to hold them, cutting prices to all will really cut into your margin. Run your figures – will the consequent fall in profit be more than compensated for by the expected increase in sales volume? Try improving the service offering to the customer or around the product – this can add value without any significant increase in costs.

Suppliers and the supply chain

Most businesses are both suppliers and customers at the same time. When demand slackens your suppliers will be sharing the hurt. Just as you may be prepared to offer discounts and deals to good customers, so the suppliers you have a good relationship with may be prepared to renegotiate prices with you now. Agreement to pay key suppliers promptly or on the due date by direct debit should win a discounted price. In a downturn, the last thing you want is to be stuck with shelves of unsellable inventory. If you don't have a stock



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management system, this is the time to implement one that can predict your minimum inventory needs and the correct time to order them in. Liquidate deteriorated or obsolete items in inventory.

Rationalize your supply chain by aggregating purchases so that you aren't buying the same item from multiple suppliers – it is inefficient and time consuming and also limits your negotiating leverage. There's a caveat though – select your suppliers carefully: if they go under, you don't want to be dragged down with them. If they can't make their production quotas you may miss out on receiving supplies.

Downturns don't last forever and businesses that make the right moves to protect themselves will come through. Consult a business advisor to get a clear view of your situation and advice on what tactics you can take to protect your business.

Upcoming Seminars

Tough times and tough economics can be the impetus for improving your company. Shepherd & Goldstein offers its insight in these upcoming seminars:

How The Business Transition Boom Can Help Build Your Practice (sponsored by TD Banknorth)

6/8 Yarmouth House Restaurant, West Yarmouth 12:30 pm

Navigating The Recession (sponsored by Metrowest Chamber of Commerce)

6/16 Clark University Management Center, Framingham 7:30-9:30am

For resources about dealing with this tough economy, please visit www.sglp.com.

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Comments? Changes?

We all want to improve what doesn't work...but we need YOUR help! Share your improvement ideas and topics you would like to read in future issues with:

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