



**SHEPHERD  
& GOLDSTEIN**  
Business Consultants and  
Certified Public Accountants

Fall 2008

# Grow your Business

## Contents

▶ Don't Get Run Down By A Cycle .....	1
▶ Grow Your Business By Increasing The Number of Times Your Customers Come Back..	2
▶ Discounting Is Dangerous .....	3

## It's The Economy.....!

Recession, tight lending standards, troubled financial markets, volatile energy prices...and the list goes on. No one can deny that economic times are tough, but don't let that be an excuse to simply cut expenses and hunker down to just try and weather the storm. Many businesses have managed to grow and prosper during recessions. In this issue you'll find some tips and ideas to help you succeed in this tough economic climate.

Joseph Vajda, MBA  
Editor

## Don't Get Run Down By A Cycle

Every economy has cycles of expansion and contraction, or boom and bust as they're often called. Unlike the expansive stage, which is a time of growing and accelerating economic activity that reaches a peak, we are facing a bust or a contraction where production, sales, and incomes decline. Cycles vary in their lengths and strengths, but neither good times nor bad times can last forever. The turning points in the periods of expansion are the 'peaks' and in the period of contraction are 'troughs'.

Economic downturns can have a tremendous impact on people and businesses. Yet many businesses have managed to grow and prosper during times when others were going under. There are obviously ways to not only survive but to also grow in even the worst depths of a recession. Here are some things that we can help you with to strengthen your business and help ward off the worst in times of a business slowdown...right now.

### Strengthen relationships with customers

It costs money to attract new customers and money is what businesses usually run short of in the lower part of a cycle. Review your value proposition and market heavily to your existing customer base and do all you can to delight them and to bring their next purchase forward to maintain cash flow. Present your good customers with special offers and extra attention - if they've bought from you before, they can be encouraged to do it again. Remember it is six times cheaper to sell to your existing clients than to new ones. Following a good customer service strategy will allow you to both maintain and grow your customer base.

## Keep an eye on what the competition is doing

If anyone's likely to find a way out of a trough it will be one of your competitors. Keep in touch with others in your line of business and be alert for any signs of success. Get active in your industry association or chamber of commerce to keep up with other businesses in your community. Contact leaders in your industry around the country and share information.

## Negotiate a better deal with suppliers

If times are tough for you, they're tough for others as well, and that includes your suppliers. This gives you the opportunity to negotiate better deals on everything you purchase, from office supplies to raw materials. You can achieve discounts by agreeing to pay by a specific date instead of waiting until the end of the month, or by centralizing your purchasing with one supplier. And considering the timeliness of your orders, no need to pay for stock on the shelves when your cash is needed elsewhere.

## Consider new products or services

The bottom of economic cycles can be an excellent time to introduce new products. The costs of labor and materials can be low compared to better times and customers will be looking for simpler products that cost less than 'expensive' versions, but still meet the same needs. Products with higher margins can be repositioned and sold into new market segments at lower prices. Keep in mind however in preparing your growth strategy, that new products to new customers is the riskiest of the four strategies you have available. If you need assistance, we can help you align what the right mix might be for your particular circumstances.

## Carry out maintenance



When business is booming it's often hard to find enough time to maintain business premises and equipment. It can be difficult to schedule repairs when equipment is running at peak capacity. A slowdown presents the opportunity to look

after the condition of your business assets and get them ready for the next upturn, including one of your greatest assets—your employees.

### **Look for production cost savings**

Keep an eye on your finances. You might not have had the time or the incentive before to really look at ways to reduce costs; now you must. We can help you extract much of the information you'll need from your payables register. Review all expenditures and see where costs can be reduced, or eliminated altogether. A lot of expenditure becomes habitual and is done without much regard to the value returned from it. Do some comparison shopping for everything you need to purchase and you may be pleasantly surprised at the savings that are possible.

### **Control credit**

Be firm with the application of your business' credit policy. Talk with your major customers and explain that you need their payments on time each month so you can continue supplying them with the goods or services they need and still meet your own commitments. Don't let accounts become overdue; contact customers the day an account is due for payment. Offer to collect payments from local customers. The best thing a business can do during an economic contraction is to properly follow through on their invoicing.

## **Grow Your Business By Increasing The Number Of Times Customers Come Back**

In the last issue we discussed the first of the 4 ways that you can grow a business – increasing the number of customers of the type you want to have. In this issue we discuss the second way, increasing the number of times customers come back to buy from you.

### **Chasing new customers versus encouraging repeat business**

It's a simple fact of business – most companies are obsessed with getting new customers. They advertise, plead, bribe, bend over backwards and sometimes beg to get a new customer.

And after all that, once they get them, they ignore them.

Think about this. As we have previously stated, it can cost up to 6 times more to win a new customer than it does to have an existing customer purchase again. Why? Because you invested time and money to acquire that customer for the first sale, but every additional sale after that doesn't involve any extra acquisition cost. So for every sale you make to an existing customer you actually keep more as profit.

In other words, it's a well recognized fact that retaining and having customers come back for more – and more – is the most profitable way to sell.

So how can you encourage repeat business?

### **Know your best customers and treat them well**

One of the first ways to ensure repeat business is to classify your customer base into tiers according to how profitable they are. This can be as simple as categorizing them as A, B, C and D customers. This classification process means that your ongoing communication and marketing approach will be more appropriate for each group. For example, your A customers are the ones you most want to keep working with, so you might invite just them to join a preferred customer club, or As and Bs would get special mailings and offers, etc. You could even go so far as to ask your D customers to go elsewhere, freeing up more time and energy for your preferred customers.

### **Provide awesome service**

Creating a team commitment to service can impress your customers enough to keep them returning and referring others. The commitment could make certain promises of performance standards and could explain your business ethics and mission. These can make great unique core differentiators as well.

Awesome service, like good telephone technique and selling technique, can actually be systemized so all the team knows what they are expected to do for a customer and just how far their authority extends in bending the rules. You can't stop at saying you want your customers to be given awesome service – you need to train the team so they can deliver it consistently and effectively.

### **Nurture your customers**

It's important to nurture your relationships with your customer in the same way you would any other important relationship. Nurturing is the most cost effective way to make customers feel valued and motivated to keep purchasing from you. The more you stay in touch with them, the more likely they are to remember you. Some effective nurturing strategies are:



- Regular mailings to build on the relationship such as newsletters, offers, calendars, service reminders, thank you notes, special articles of interest, holiday cards
- Establish a loyalty program that rewards frequent purchasers

### **Use customer comment**

Asking for feedback lets customers know that you are truly interested in them and their opinion – something other businesses just may not bother with. And the feedback you get can be extremely valuable for your strategic planning.

Follow-up calls just to make sure they are happy with their purchase or to get in with some damage control if they are

not; satisfaction surveys; customer advisory boards – all can be very useful in encouraging repeat business.

When you do make the effort to gather feedback, and the customer has made the effort to give it to you, don't waste it. Use the information to continually improve the way you do business, and let customers know that their suggestions are being used.

## Discounting Is Dangerous

In tough economic times, many small-to-medium size business owners consider discounting prices to stimulate their sales. Offering a discount in the heat of negotiations may seem like a good idea at the time, but thoughtless discounting is an easy way to lose money fast.

Before you succumb to the temptation to win new business by offering a discount, take a moment to consider these ten problems associated with discounting.

1. Discounting eats away profit margins!
2. Negotiating a discount focuses the customer's attention on your price. If your only competitive advantage is price you are in trouble because price can always be matched by a competitor. The focus should be on the benefits of the product to the customer that make the price, if not irrelevant, then at least not the primary influencer of the decision to buy.
3. Discounting can affect the customer's perception of the value of your product – the 'you get what you pay for' syndrome. The less they pay, quite likely the less they will value it.
4. Discounting may affect the quality of your service. If you have offered a discount and realize your profit margin is going to be slim if you do the job to your usual standard, then there's the temptation to cut corners. That compromises the quality of your work and if it results in customer complaints, it eats into your margins even further. Poor work gets talked about and you risk your reputation and the referred business that can come out of being known for quality.
5. Discounting can result in reduced demand. Customers might see the opportunity to buy at a discount as an opportunity to really stock up on the item and that can decrease their need to buy for some time into the future. Altered buying patterns can effect sales predictions and cash flow forecasts.
6. Discounting increases work hours. In effect, discounting means lower income per hour, so to maintain your profit level you are going to need to put in extra hours to compensate for the narrower margins on your sales.
7. Customers can gouge you. Word of discount deals gets spread around and if you did it for one customer what is your justification for refusing it to the next one who tells you they 'know you did it for Person X'?
8. Discounting can be addictive. To make a sale it's easy to fall into the habit of offering a discount as a first resort instead of as the last. It's possible to win customers by offering to negotiate on things like after sales service, a longer guarantee period or an added accessory rather than resort to a discount offer. Some of these may never turn into an extra cost to you, but are valuable to the customer and may be preferable to a discount in their eyes. Before you discount, stop and think: is this the only way I can give value?
9. Guessing wrong. If you make up your discount offers on the spur-of-the-moment you are going to guess wrong. It's very easy to underestimate costs and end up out of pocket. Discounts, if offered at all, need to be based on an itemized costing of the job and include a buffer for any extras incurred should things not go as smoothly as expected.
10. Discounting starts price wars. The company that usually wins is the one with the biggest balance sheet—the one who can afford to hold out the longest. That's a dangerous game to play.

Unfortunately, discounting as a business practice has become so entrenched because of its supposed ability to win sales that it is difficult to break the habit. But think about how many times offering a discount has actually been an investment that paid off in the long run.

Of course, there are some valid business reasons to discount, such as liquidating obsolete or seasonal stock or to meet cash flow requirements. But smaller businesses should have carefully calculated strategies for discounting so it's not done thoughtlessly with a disregard for margins or retaliatory action by irate competitors. If you want to follow best practice, then develop a price policy that includes your discount deals and the exact amounts to be offered in each circumstance and stick to it. Base it on an understanding of the real costs of production and your profit margins. If you employ salespeople, make sure they know about it and stick to it as well.

## Transition Planning Benefits

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

### An Important Message

While every effort has been made to provide valuable, useful information in this publication, Shepherd & Goldstein 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.

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

Our affiliated company ROCG Shepherd & Goldstein Consulting Group has several public speaking engagements coming up to help educate business owners about how to maximize this crown jewel of their career.

### **Business Connect 2008**

Only 10% of all owners obtain the price they want or expect when they sell their business. Terry Shepherd, along with an expert group of panelists, addressed building business value and the many issues of succession/transition planning at a workshop held on Thursday, October 16th at the Resort and Conference Center at Hyannis.

### **Stampede To The Exit®—Business Owners Putting Families At Risk**

Worcester Business Journal is proud to

present three local informational sessions featuring three experts in business transition. The events are co-sponsored by Terry Shepherd, ROCG Boston Office, John McKenna of Commerce Bank and Chris George of George & Company.

#### Worcester

10/15 Beechwood Hotel 7:30-9:30 AM

#### Westboro

10/23 Double Tree Hotel 3:30-5:30 PM

#### Milford

10/29 Courtyard Marriott 7:30-9:30 AM

To register, contact Kris Prosser at [kprosser@wbjournal.com](mailto:kprosser@wbjournal.com).

For more general information about planning for your transition, please visit [www.business-transition.com](http://www.business-transition.com).

### **Affiliated Companies**

- ROCG Boston Office—Shepherd & Goldstein Consulting Group LLC
- Shepherd & Goldstein Financial Services LLC

### **Terms Of Use**

© 2008 Bullseye Business Solutions  
All rights to the content in this publication are reserved by Bullseye Business Solutions and Shepherd & Goldstein. Any use of the content outside of this format must acknowledge Bullseye Business Solutions or its licensee RANONE and Shepherd & Goldstein as the original source.

### **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:

Joseph Vajda, MBA  
Senior Manager  
[jvajda@sgllp.com](mailto:jvajda@sgllp.com)  
(508) 757-3311  
[www.sgllp.com](http://www.sgllp.com)

**Worcester • West Yarmouth • Framingham • Milford**