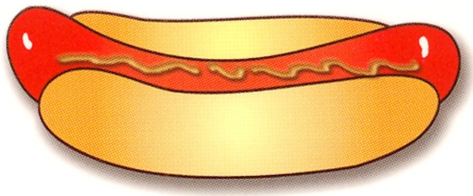
THE HOT DOG SYNDROME



Everlasting Strategies for Obtaining Money, Enjoyment and Security from Your Business

HARVEY A. GOLDSTEIN, CPA

THE HOT DOG SYNDROME

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Harvey A. Goldstein, CPA

GRANVILLE PUBLICATIONS

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Author Harvey A. Goldstein has developed a software program called Up Your Cash Flow. It is an easy-to-use, menu-driven program that produces the complete business cash plan in spreadsheet format, with no programming or model building.

Mr. Goldstein is available to address your group through speaking engagements and seminars regarding concepts outlined in this book.

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To my father, who is 95 years old.
I hope I have his genes.

To Rochelle, Caryn, Todd, Jacob and Spencer,
whom I love.

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About the Author

HARVEY A. GOLDSTEIN is a Certified Public Accountant and managing partner of the Southern California CPA firm of Singer Lewak Greenbaum & Goldstein LLP. He has been actively engaged in the practice of public accounting for more than 30 years.

Because of his unparalleled commitment to the small business community, Mr. Goldstein was appointed to President Reagan's National Productivity Advisory Committee, and appointed by California Governor George Deukmejian to serve on California's Small Business Development Board.

Mr. Goldstein has appeared regularly as a guest specialist on local and national radio and television, offering business advice, legislative updates, and tax tips. He speaks to over 100 business groups annually and publishes articles regularly.

It is this dedication that has led *The Wall Street Journal, The Washington Post, the Los Angeles Times and Forbes Magazine* to select Mr. Goldstein to be the subject of several articles. He has been labeled "a crusader for small business," "a man possessed," and "America's small business ally."

Mr. Goldstein is the author of the book *Up Your Cash Flow* and creator of a business financial planning software program by the same name.

Mr. Goldstein's philosophy of business (and life) is best exemplified by a small plaque adorning a corner of his desk in his West Los Angeles office. It reads: "Good Things Come to Those Who Wait, But Only Those Things Left By Those Who Hustle."

Acknowledgements

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Thank you all.

Chapter One
Ron Alexander, Entrepreneur

It was 6:00 a.m., Thursday. Ron Alexander put his pillow over his head, trying to hide from the screaming alarm. It was time to get up, but facing this new day was not a pleasant thought. Ron's business was having difficulty and heading downhill.

Several years ago, Ron had concluded that working for someone else was not his cup of tea. He was confident he could make more money in his own venture, and decided to go into business for himself.

After struggling to raise a few thousand dollars from relatives, and putting a second mortgage on his home, Ron took *the plunge,* as he liked to describe it. But, as is often the case with entrepreneurs, Ron had very little management experience and no formal financial training. Additionally, the money he was lucky enough to raise was much less then he needed to properly start the business.

Ron chronically complained about not having good people. Sales weren't what he expected, and because his management skills were not the best, everything crossed his desk in an onslaught of problems and worries. Consumed by managing all phases of the business from sales to production, Ron was exhausted!

Forcing himself, he reached over and silenced the screaming alarm. Ron crawled out of bed, completed his normal morning routine, then headed for his office.

Within half an hour, he parked his car in front of his plant. Pausing momentarily, he reluctantly stepped out of the car and began the short walk to his office.

Nearing his office, Ron tried to ignore the nerve-racking surge of adrenalin rushing through his body, again. It was not a comfortable feeling and it came more frequently these days.

As his level of anxiety climbed, Ron's concern escalated. He worried that his involvement with his business was generating more stress than he could or should ever handle.

Opening the door to his office, Ron walked in a fog to his desk and slumped down into his chair. Within minutes his head began to pound, a desperate, relentless thud, growing in intensity. Without realizing it, he started repeating to himself, silently, over and over, "What do I do? What do I do?"

Ron's stress was just about to overwhelm him when suddenly, out of nowhere, he heard the words, "Stop, Ron, Stop!"

Totally confused, Ron wasn't sure whether it was his own mind admonishing him, or if he had actually heard someone command him to stop. He looked around his empty office, but couldn't find the source. Although he could hear his employees chattering outside the closed door, he was, in fact, totally alone.

"Now I know I'm going crazy," he mumbled to himself.

Again he heard, "Ron, stop!"

"Where are you?" Ron demanded in panic.

"It's not important. What is important is that you get a grip on yourself. You've got customers, vendors, suppliers, employees and their families depending on the success of your business. This is a heavy responsibility and you need help, now."

"This is crazy!" Ron shouted, and then, in a hushed tone, "Let me see if I understand this. A voice coming from out of nowhere is telling me I need help?

"I can hear you. I can't see you, and you're going to give me advice on how to improve my business? That's insane!" Ron yelled into thin air. Fuming, he added: "I can't see you, but I'm sure I'll be able to see the bill!"

"No bill, Ron. Just help!" The Voice replied. "Ron, give me one hour of your time and you'll be on you way to having greater control of the business, greater cash flow, more customers and less stress."

"Sure. A miracle worker I'm talking to," Ron said sarcastically. "Am I the only one who can hear you? All I need is for my employees to catch me talking to myself. They already know I'm stressed out. I don't want to add mentally deranged to the equation."

“Just you, Ron,” came the reply. “It sounds to me like you’re suffering from the ‘Hot Dog Syndrome,’” suggested The Voice.

“What the hell are you talking about?” Ron shot back.

“At some point or another in the life of every entrepreneur they get a major desire to be rid of all their worries and cares, to chuck it all for a business that’s simple to operate with little or no stress. A hot dog stand, for example,” said The Voice. “Sound familiar?”

“Of course,” Ron agreed. “It would be a relief to trade in all of this for a simpler life.”

“So, let’s go with that for a moment,” The Voice suggested. “Now you operate a single hot dog stand making a few bucks and enjoying the simple life. But being the entrepreneur you are, one stand is not enough so you open another. Of course, franchising is a possibility and may be an easy way to open up several more stands. Suddenly, you’ve hired a lot of people. You decide to manufacture your own hot dogs and getting the dogs into the super markets is another way of expanding the business and making more money. Before you know it, you’ve grown your *simple* hot dog stand into a hot dog empire with the same headaches.

“Get it? Ron? *You are who you are*.”

“You’re right, but I still feel incredibly overwhelmed by this business I’ve created. It’s running me into the ground,” sighed Ron.

“Yes,” said The Voice. “I would like to help, if you’ll let me.”

Then pausing to savor this unique moment, Ron pondered, “What do I have to loose? Where do we begin?”

Chapter Two
What Do You Want?

"Let's start with some questions, Ron. What do you want from the business? Why are you here? Why do you put in the hours you do?"

"Huh? Not quite sure what you mean," Ron replied.

"Every day you go to your place of business. You participate in a great deal of stressful activities. You're here 12 to 14 hours each day. Why? What is it that you personally want from this activity?

"I don't want to know what you want your business to accomplish, Ron. I want to know what it is that you want. Focus on your self-interest. What do YOU want?" pressed The Voice.

"I never thought about it," Ron shot back. "I started the business because I love the work and, of course, I want to make a lot of money."

"Ok, Ok. So?" The Voice prodded.

"Money," said Ron. "I want to earn lots of money."

"What else? Keep it personal," The Voice urged.

"Well, I said I love what I do. That keeps me coming here. I get real pleasure in knowing we make one of the best products in our field. Our customers seem to enjoy doing business with us, and this gives me a great deal of satisfaction."

\"And this gives you what, Ron?" asked The Voice.

"I like what I do. I enjoy running the business. Frankly, it's very important to me that I have fun and enjoy what I do. Unfortunately, I'm not having fun and enjoying what I do at the present time," lamented Ron.

"Looking for enjoyment, Ron?"

"Hopefully," Ron agreed.

"Two things so far," said The Voice. "Money and enjoyment. Anything else?" The Voice prompted.

"I'd like to sell the business for a lot of money and retire at a very early age. Say, when I'm 50," Ron answered. "I'd like to be able to spend the rest of my life without a worry or care."

"Security?" asked The Voice.

"Yep, security."

"OK. Let me clarify where, I think, we're at," said The Voice. "You want money, enjoyment and security. Is that it?"

"Sounds good to me," Ron quipped.

"Ron, what do you think your employees would like from your company?"

Mulling it over for a moment, Ron answered, "Money, enjoyment and security."

"You got it!" exclaimed The Voice. "Your employees want exactly what you want. You're all here for the same reason."

Ron nodded his head in agreement.

Chapter Three
No Money, Enjoyment, Security--Good Bye!

"Ron, if everyone in the organization wants the same thing--money, enjoyment and security--then doesn't it make sense that one of the reasons for the existence of the business is to provide these things?" asked The Voice.

Not waiting for Ron's answer, The Voice continued, "As you know, the classic definition of a business is an economic unit formed to provide goods and/or services to customers and make a profit. However, because we're involved with the business to satisfy our personal wants and needs, we need to add to that definition. The business must satisfy the wants and needs of the owners *and* employees. Otherwise, the business has no basis for existence."

"Let me repeat this in my own words, Voice," Ron offered. "If I and my employees want money, enjoyment and security then the business must be the engine for providing this. If it doesn't provide these things for me and my employees, it wouldn't exist?"

"Ron, take away any of these items--money, enjoyment and security--for a sustained period of time and you, more than likely, will leave the business. For you it will no longer exist. The business may just end. The same is true for your employees. No money; they're gone.

Don’t enjoy what they do; they’re gone. No future; they’re gone. The business is the engine to get you and your employees what you want.

“Money, enjoyment and security. The goals of the business must be designed to provide these things to its owners and employees or else good-bye.”

Chapter Four
Forever? Yes, Forever!

"Ron, does your business have goals?" The Voice asked.

"Sure, we do."

"May I see the written document that describes these goals?"

"You're kidding, of course. We don't have one," Ron said sheepishly.

"Let me see if I understand this," said The Voice. "Your business does not have goals or your business *has* goals but they're just not written out?"

"Of course we have goals," Ron countered. "They're just not written in some fancy document."

"Tell me one of the goals," The Voice suggested.

"One goal is to increase sales to five million dollars this year," Ron replied.

"Sounds like a strategy for the coming year. A temporary goal." The Voice countered. "What I'm looking for are business goals that will last beyond the current year. Let's say, forever."

Stunned, Ron repeated, "Forever?"

“Yep, forever. Any Ideas?”

“Never gave it much thought,” Ron admitted.

As Ron pondered the weight of forever, he rose from his chair, meandered to the window and stared down at the parking lot below.

Chapter Five
Make a Profit

"What do you think, Ron?" The Voice pressed.

"As I see it," Ron answered, staring out the window, "since making money is on my list then obviously one of the most important goals of the business is to make a profit."

"Yes, but let's spell it out in a slightly different manner," said The Voice. "Goal Number 1 of the business is to provide sufficient income to enhance the standard of living of the business owners and employees. Does that make sense, Ron?"

Without waiting for a reply, The Voice continued. "Every year more and more obligations must be met individually by you and your employees: the cost of education for children, the old jalopy needs to be traded in, growing family needs a bigger home or the old one needs a new roof, and on and on and on.

"I'm sure you know, Ron, as you increase your income, your level of aspirations and needs rise as well. Unfortunately, aspirations and needs seem to rise faster than income."

They both laughed as The Voice continued, "The business must always be profitable. Owners and employees must have the opportunity to increase their standard of living on a regular basis.

“Will this goal of profitability ever change?” The Voice posed hypothetically.

“Well, sometimes we don’t achieve profitability, but it will always be a goal of our business,” Ron answered as he turned away from the window.

“Is there a business you can think of where making a profit is not a goal?” The Voice inquired.

“Voice, this goal is obviously universal and will never change. It will last forever,” asserted Ron, adding, “This is pretty basic stuff. Every business needs to make a profit. Give me something different, something new, something that will give me instant gratification. I need help now!” he shouted, dropping back into his chair.

“Ron, you don’t get it. It’s all basic,” The Voice insisted. “Every business owner needs to deal with the basics, just a simple basic plan to follow for developing a successful business. Unfortunately, most entrepreneurs don’t have any plan at all. They jump right into the business. Open the doors and think they’re on their way. When cash is short, and stress is at an all time high, they find themselves sleepless, staring at the ceiling at 3:00 a.m. every night. Does the need for change become obvious then?

“Not always,” The Voice answered the question first. “Even then its difficult for many to change. Let me tell you about Marshall Foley, a perfect example of one who was unable to change.

“Marshall had a sheet metal business and it was in terrible shape. He was good at sales but finance and cost control were not even in his vocabulary. Marshall was his own worst enemy. He needed to make immediate changes in production, inventory control and cost accounting, but Marshall did not like change. In fact, Marshall was incapable of changing.

“One day Marshall was having lunch with his banker and accountant. They suggested to Marshall that he seek the advice of a person the banker knew who had been a very successful sheet metal dealer.
Both the accountant and banker encouraged Marshall to seek advice from one with such expertise, but Marshall rejected the notion that he needed advice. In fact, he was quite distressed at the suggestion.”

“Why?” asked Ron, perplexed.

“Ego,” The Voice shot back. “In six months Marshall’s business closed its doors. Forever.”

“Not very smart,” Ron said softly.

“Stupid, stubborn pride and the inability to change,” lamented The Voice.

“Voice, sometimes when people suggest that I seek professional advice to help me manage the company, I find it almost insulting. Maybe I’m being too sensitive but it implies that I may not be capable or have the necessary skills to manage the business. My immediate reaction is to *not* seek the advice. It’s embarrassing to admit I need help.”

“Are you saying that you need to be capable and skilled in all areas of the business?” The Voice asked.

“I’m not sure what I’m supposed to be capable of. That’s my real problem. I don’t know what I’m supposed to be doing or what I’m supposed to know,” Ron declared with obvious frustration.

“I think that what you’re *supposed* to be doing and what you should *know* will be clear when we’ve finished our discussion, but certainly, to assume that you must be skilled in all areas of the business is more than can be expected of any business owner or manager,” The Voice said reassuringly.

Noticeably relieved, Ron closed his eyes for a moment.

“Thanks for your honesty, Ron,” commended The Voice. “Let’s continue.”

“OK, let’s do it,” said Ron, looking up.

Chapter Six
Loving What You Do Brings Enjoyment

“You said earlier that you love what you do, and you get great satisfaction from having good relations with your customers. We translated that into enjoyment. Remember?” asked The Voice.

Ron nodded.

“So, Ron, what do you think the business must provide or what goal is appropriate to make certain that you get the enjoyment that you want?”

“I’ll take a guess,” Ron ventured. Standing up at his desk, he began, “The business must provide a good quality product and world class service to its customers. This is a great source of pride for me.”

“Yes, yes, yes. You are right,” interrupted The Voice. “Most people love what they do when they know in their hearts they are doing a good job. So, shall we say Goal Number 2 for the business is to provide the highest quality product and/or service commensurate with the market place?”

“Wait,” said Ron. “You qualified the goal by using the terms commensurate with the market place. Why not just say the highest quality product and/or service?” Ron asked as he scanned the room, hoping for a glimpse of the source of The Voice.

“The highest quality may not be the same for all markets,” cautioned The Voice. “The market place dictates what quality is and what is appropriate.

“For example, Target Stores has good quality products for its market but certainly not the same that Nieman Marcus provides to its market. Knowing the market becomes very important. Too much quality may mean too few customers and poor quality may mean no customers at all.”

Pressing on, The Voice asked: “Ron, can you see a time when this goal would not be appropriate?

“I can see when quality might be redefined but this goal will always be there. It, too, will last forever,” contended Ron.

“That’s right,” The Voice proclaimed.

Chapter Seven
When It's Over, Make Sure Value Endures

"So, let's review your personal goals," The Voice suggested, "You'd like to sell the business for a lot of money, retire at an early age, and be able to spend the rest of your life without a worry or care. Wasn't that how you put it?" asked The Voice.

"Yes. We rolled it all up into security," Ron responded, still standing behind his desk.

"Ok then. What's the third goal?" prodded The Voice.

"Build value," Ron ventured.

"How?"

"Make my life easy. You tell me," implored Ron.

"Come on, Ron, take a shot at the answer," chided The Voice.

"Ok. Ok," Ron relented. "The business has value when it has a good share of its market, a solid infrastructure, and continued growth and profit. When it is solid as a rock."

"You mean management must take a long view?" suggested The Voice.

"A long view?"

“Yes, a very long view,” The Voice explained. “The business must be built to last forever. That’s how it gains a good share of its market, a solid infrastructure, and continued growth and profitability. So, Goal Number 3 is to build a business that will last forever.”

“Let me catch my breath a moment,” said Ron, sitting down. “I’m sure your next question is: ‘Will Goal Number3--building the business to last forever--last forever?’

“I’d like to try to answer the question,” Ron continued. “I would say maybe yes and maybe no. It’s possible that many businesses are never built to last forever. The owners may not even care. They enjoy what they do and make good money at it. When it’s over it’s over.”

“You’re right,” said The Voice. “But all business owners must decide whether they’re interested in creating value or not. Can you imagine spending 25 to 30 years in a business and when it’s time to call it quits, you find out the business has little value. Thirty years of building and struggling and not much to show for it. A tragedy.”

The Voice then offered another story: “I remember meeting Painter, Brown and Decker partners in an accounting firm. They have been partners for almost 30 years.

“They made a major mistake because they never followed the strategy of building their business to last forever. They kept their work product to the basics, never taking on more sophisticated types of clients, never training and developing staff. It was an old fashion practice. They provided the services most accounting firms gave up many years ago. As they got older, they wanted to work less, but they were unable to attract new people.

“To realize some value, they began looking for a merger partner with the goal of merging into a new firm and then Painter, Brown and Decker would retire. They hoped they would then receive the value they perceived the business had.

“Unfortunately no firm was interested in their practice. Clients were old and retiring. No infrastructure had ever been established and there were no good employees in the firm.

“Ron, they will die at their desks. Sounds harsh but it’s true. Building a business to last forever means the future is as important as the present. They never realized that tomorrow would become today.”

Ron shook his head, imagining those graying partners bound to their desks, unable to retire.

“So, Goal Number 3 is to build a business that will last forever,” The Voice affirmed.

Chapter Eight
Beginning To Make Sense

“Voice, so far we’ve covered a lot of ground. I’d like to take a minute and clarify, in my mind, where we’re at.”

“Sure, go ahead,” urged The Voice.

“Earlier, I said I wanted my business to provide me money, enjoyment and security. We concluded that the business must be designed to deliver these things by establishing goals that will provide my employees and me with what we want. I’ll short cut the goals,” Ron continued.

“Goal Number 1 is to make a profit. Goal Number 2 is to provide a good quality product and/or service. Number 3 is to build the business to last forever. Sound about right?” Ron asked.

“You got it, Ron, but we still have a distance to travel,” The Voice advised.

“OK. It’s beginning to makes sense to me. What’s next?”

Chapter Nine
The Decision Making Matrix

“Ron, let me digress for a minute from the basic plan. By establishing the business’ primary goals, we have created a *decision-making matrix* that can assist management in its day-to-day decision making.”

Interrupting, Ron said, “I think I understand. Every time I need to make tough business decisions, I look at the three goals. Ask what impact my decision will have on profit, product quality and service, and the long-range goal of building a company that will last forever. Whichever goal is most important at the time will weigh more than the others.

“Presto! I know what decision to make,” exclaimed Ron.

“You’re a great student, Ron, but remember these goals will often conflict with each other. For instance, you may need to hire a sales manager. That may have an immediate negative impact on profit, but could have a positive impact on customer service. All you need to do is make right decisions more often than wrong ones,” assured The Voice.

“Brilliant,” Ron said, popping out of his chair. “Would you like a cup of coffee or a soda?”

“Ron, how in the…”

"Oops! I forgot. You're not here. But you're becoming real to me. Any chance you might explain to me what or who you really are?"

"Ron, let's move on." The Voice said, dodging the question.

Chapter Ten
Write It Out

“Now what?” Ron asked, more enthusiastically than before.

“Ron, we need to establish a game plan to make certain the company achieves its goals. Remember, if the company succeeds you get what you want. Self-interest is the great motivator.”

“So far so good. Keep talking,” urged Ron.

“You need to follow several strategies to make certain the company achieves its goals or, at least, comes mighty close. Any strategy ideas, Ron?”

“Keep talking. You’re doing fine,” Ron conceded.

“Strategy No. 1: to achieve the goals of the business, the company must create and follow a written marketing plan. The governing word is written,” stressed The Voice.

“Why the emphasis on written?” Ron wondered.

“*If it’s not in writing, it’s not a plan. It’s only an idea*. As you know, ideas are elusive; here one moment, gone the next. A well thought-out marketing plan will make certain that important projects don’t fall through the cracks.”

“That’s a good idea,” said Ron pensively. “On several occasions we missed ad deadlines and other opportunities because people forgot what had to be done. Frankly, so did I."

"By the way, Ron, is your marketing plan available? I'd like to see it"

"Sorry. Never had time."

"Seat of the pants marketing? Doesn't work, does it?" asked The Voice, not waiting for an answer. "Marketing means new customers, more sales, greater cash flow and profit. Never leave marketing to chance. Always have a written plan."

"Yes, yes, always in writing," Ron mimicked.

"In a few moments, Ron, we'll get into more detail on marketing, but let's flesh out the list of strategies first."

Chapter Eleven
You Can Only Manage One Thing

"Ron, you need to make a profit. Plan for it. It doesn't happen by accident or inertia," cautioned The Voice. "Strategy Number 2, to achieve the company goals, is develop an annual financial plan."

Rising out of his chair, Ron half-shouted, "Oh, please don't make me start budgeting stuff. No way in hell will I subject myself to budgets that takes away my flexibility. I refuse to let some bean counter tell me how to spend *my* company's money. Forget it!"

"Hold on, hold on," The Voice said, slightly amused. "I know I hit a nerve. Just hold that thought for later. We'll get to it. I've got another little story for you.

"I remember a planning meeting Robert Alvarez had at his home several years ago. It was one of those rare moments when his entire management team came together to discuss the future of the company, and they were very excited. His company manufactures candles; November and December are the company's best months. Unfortunately the company was having profit and cash-flow problems.

"The sales manager launched into her presentation with great excitement, 'I have put together sales forecasts for the coming season. If we use these forecasts I think we can plan our manufacturing and finances, keep our inventory at reasonably low levels and increase cash flow. All without losing any sales.'

"Ron, you may not believe this but Robert actually made the following statement which utterly destroyed the meeting: 'It's not necessary to develop a plan. Inertia will get us through the season, as it has in the past.'

"Yes, he actually said inertia. He blew everyone away with that word, and the meeting went down hill from there. The company, to this day, struggles to squeeze out a living for its owners. Most of the management team is gone and the bank recently asked them to find another source of financing.

"Ron, this company could have increased its profits and cash flow, and the owners could have made more money if Robert had just spent some time in the future."

"What does that mean *spend some time in the future?* Is that where you are? Am I talking to the future?" Ron pressed. "Is this some kind of psychic game? What's going on here?"

"Have faith, Ron," The Voice urged. "Have I steered you onto a path that makes no sense? Do you disagree with what we've set out so far? Ron, I promise that when we're finished you'll be a believer."

"Sounds like we're forming a cult," Ron mumbled.

Ignoring that comment, The Voice pressed on, "Ron, understand this. There is only one thing that you can manage. Do you have any idea what that is?"

"Give me a minute," Ron paused. "How can it be only one thing? I manage many things," he protested.

"Yes, you do, but when you make any *business* decision, it will impact one thing and one thing only. It's the future," The Voice revealed, repeating the phrase for emphasis.

"The future. All decisions made now are for the future. They impact the next minute, the next day, next month, and all the years to come.

"The decisions you make today have no impact on yesterday. You can't manage the past. You can't even manage the last minute; it's over. You can only manage the future.

"Everything we are discussing is about the future. What you want is in the future. The goals we establish now, today, will last forever, and the strategies we establish are for the future. You are going to manage the future, Ron, and the more you know about that future, the more effective you will be as a manager."

"Voice, I never looked at it that way," Ron admitted, stunned. "Mostly what I do is put out fires and, frankly, I'm tired of being a firefighter.

"The future is hard to grasp; it's elusive," Ron lamented. "We're never sure when it arrives, and the notion of knowing what the future holds is the job of a Swami, not an entrepreneur."

“When we get into the details of the financial planning process, the future concept will become quite clear,” said The Voice, confidently. “Hang in there, Ron.”

Chapter Twelve
Don’t Follow Old Sayings

“Ron, remember the old adage, if it ain’t broke, don’t fix it?”

“Sure,” nodded Ron.

“I have a new one for you. *If it ain’t broke, break it, fix it, and make it better!* This translates into strategy Number 3: Review all operational functions of the business *often*.”

“You mean take a look at what we do, how we do it, then make the processes better?”

“That’s it,” The Voice confirmed. “More on this later.”

Chapter Thirteen
Who Does The Hiring Around Here?

"So far, we have decided on three strategies," The Voice summarized. "First, a written marketing plan. Second, an annual financial plan that will guide the company to profitability. And third, an operational plan that will achieve the goal of a quality product and/or service, and contribute to profitability.

"So, now we've created the strategies to achieve your company's goals except for one--build a business that will last forever," The Voice continued.

"Ron, what is the most important ingredient in building a business that will last forever? Remember, the business must be built to outlast the current generation of employees, including the owners. How do we accomplish this?"

"Easy," Ron quipped. "People."

"Absolutely right!" The Voice cheered. "People. It's the most important investment the company will ever make."

"Sometimes people are such a pain in the butt. Give me a smooth-running piece of equipment any day and I'm a happy camper," Ron grinned, stretching his arms to the ceiling.

"Not happy with your people?" The Voice queried. "Who does the hiring around here?"

“I do,” Ron answered sheepishly.

“Strategy Number 4 to achieve the goal of building a business that will last forever: develop a personnel plan. That’s it, Ron. These are the four strategies you need to accomplish the goals of the business,” The Voice declared.

Chapter Fourteen
What Have We Done So Far?

“Before we examine each strategy in detail, Ron, let’s take a minute to review what we’ve discovered so far,” The Voice suggested.

“We started out acknowledging that you and your employees all want to earn money from your company, have a good time while working here, and that you’re all looking for security as the years go by. To do this your company needs to design itself strategically to achieve its goals therefore providing you and your employees with all the things you want. Remember, self-interest is one of the greatest motivators.

“We then established the company goals: Number1. Provide sufficient income to enhance the standard of living of everyone involved with the company; Number 2. Provide the highest quality product and service commensurate with your market place; Number 3. Build a company that will last forever.

“To achieve these goals, we need to create and follow certain key strategies: develop a written marketing plan; develop and maintain a dynamic financial plan; continuously review the operational side of the business so the company becomes more efficient; and develop and adhere to personnel strategies ensuring that the company invests in its most important asset, its people.”

A Written Marketing Plan

Chapter Fifteen
What Is Marketing, Really?

“Ron, the first step in establishing your company’s marketing plan is to clearly define what marketing is. Have any ideas, Ron?” The Voice quizzed.

“I believe the process of marketing is doing what it takes to get new sales to the company,” Ron ventured.

“Are you saying the goal of marketing is to acquire new sales?”

“Sure, I think that’s fair. It’s all about getting sales,” Ron affirmed.

“Let me tell you a story about my friend Dan Grow,” The Voice began.

“Dan was the sales manager for a major new bank in Texas. Several years ago Dan and his marketing people participated in a trade show in Dallas. The show targeted a particular industry the bankers thought would be good for business.

“Seven marketing people staffed their booth at the trade show, and it was stocked with brochures and other marketing materials including the obligatory fish bowl for their drawing. The big prize was an official Dallas Cowboys jersey.

“The show was well attended and many people visited the booth, leaving business cards in the bowl. Everyone wanted that jersey,” The Voice laughed.

“By the end of the show the bankers had made many, many new contacts. They estimated that about 175 of the contacts they made were solid leads with good potential for becoming bank customers.

“When they got back to their office, these leads were distributed to the bank’s business development people whose responsibility it was to contact potential customers and open new accounts.

“About a year later, the trade show organizers asked Dan if the bank would be attending the trade show again. This time he had a year’s worth of data at his fingertips to help him decide whether attending the trade show for a second time would be a valuable strategy for the bank.

“He went to the marketing database to see how they had done with the many leads they’d gotten at the previous show. The results where dismal.

“Dan called a meeting of his marketing team to discuss the results and asked them if the bank should return to the show this year, explaining that it costs the bank about ten thousand dollars and a lot of labor, but the business development people had only opened two new accounts out of the 175 leads given them.

“Ron, what would you do? Would you have the bank go back or not?” The Voice inquired.

Ron hesitated, then said emphatically, “Ten thousand dollars is a lot of money. The results were lousy. My vote is no.”

“Dan's team didn’t agree with your conclusion,” The Voice revealed.

“One marketing team member illuminated that point when he told Dan: ‘The marketing at the last show was successful. We developed 175 good leads. The question isn’t whether to go back to the trade show, Dan. The question is what kind of sales people do we have? We did our job. We got the prospects to the sellers. Unfortunately, Dan, the selling was lousy.’”

Interrupting The Voice, Ron disagreed, “But why go back if they made only two sales? Seems like a waste of money and manpower to me.”

“Marketing is not getting sales. *Marketing is the art of getting prospects to meet the sellers*. It’s only one-half of the process of securing new customers. The first half is marketing; the second half is sales,” counseled The Voice.

“You need to judge marketing efforts on the goal of marketing, and the goal of marketing is to generate opportunities for the sales people. It’s the sales people who make the sale, not the marketing people. Marketing brings the prospect to the seller.

"Dan's marketing team *should* go back to the trade show. They developed good, solid leads for the bank's sales people. Unfortunately, their sales team wasn't up to the task.

"Ron, it's very important to *get* this. To make solid marketing decisions, you must clearly understand the goal of the marketing process. Judge marketing not on sales but on what it is expected to achieve--new opportunities for the sales people.

"If the sales people cannot make the sale with an adequate number of prospects, then efforts must be made to improve the way the sales people do their jobs," The Voice clarified.

"Dan decided the bank should go back to the show. They got 182 new leads at the second show, but this time Dan and the sales manager initiated a review of the selling side of the equation.

"They embarked on sales training and closer management of the sales process. The result was about a 10 percent closing rate from new prospects generated at the second show."

"OK, you're right!" Ron admitted. "It's important to understand the concept of marketing so we make business decisions based on proper analysis. It's clear that sales and marketing are two separate, complementary functions.

I understand the difference now," continued Ron, "but why are sales and marketing so often confused, and the difference between the two processes not distinguished?"

“Easy,” explained The Voice. “Many times people do both marketing *and* selling and they don’t always distinguish when they’ve gone from the marketing side of the process to the selling side. Let’s go back to Dan's experience,” suggested The Voice.

"Say that some of Dan's team play a dual role of marketing and selling. While at the show, their goal is to get a meeting with a prospect—clearly a marketing function. When they actually meet the prospect at the prospect’s place of business, their sales skills take over, with the goal being to get the account—a pure sales function.”

“Now it makes sense,” Ron said.

Chapter Sixteen
Opportunity Will Knock On Your Door When...

"Ron, let me give you a concise definition of marketing that's easy to keep in mind," The Voice offered.

"Remember the old saying, opportunity will knock on your door? Well, the truth is, opportunity does not just come knocking on the door. Opportunit*y* must be told where that door is. *Marketing is the art of telling Opportunity where the door is."*

Chapter Seventeen
They Didn't Like The Food

"Ron, like most companies, yours more than likely doesn't have unlimited resources for marketing. Therefore, it's crucial that the resources you do have be utilized in the most effective way possible."

"Of course," Ron agreed.

"Understanding the four steps of marketing will conserve valuable resources and produce an effective marketing program," The Voice continued.

"Step No. 1 to successful marketing is to find out as much as you can about the products and/or services you provide to your customers. However, it is just as important to know what customers think about the products and/or services you provide. You need accurate knowledge of their perceptions of your products and services," insisted The Voice.

"Customers should be surveyed regularly to ascertain their views and comments about the company and its products and services. Have you ever surveyed your customers?" The Voice quizzed.

"No," Ron admitted.

"Not too long ago, I visited Bill Gold, who owned a small, struggling restaurant in Southern California," The Voice began.

“The restaurant hadn’t been able to develop a strong customer following. Bill was perplexed and couldn’t fathom why the number of new customers had not grown because when he asked them how they liked the food and service, they all conveyed that everything was just fine.”

“Sure sounds familiar,” Ron interrupted. “That’s what everyone says when asked.”

“Ron, as you and I know, most people who dine in a restaurant have their meal and leave. If the food or service isn’t good, they never tell anyone except other potential customers of that restaurant--certainly not the owner. They just never go back.

“Bill needed the truth about how his customers perceived his restaurant. So, he decided to invite some friends and acquaintances to have dinner as his guest, making only one stipulation: if they accepted his invitation, they had to tell Bill the truth about the service and the food.

“The restaurateur got his answer. None of his guests thought the food was very good. They rated the service as OK, but not exceptional. The wine selection got high marks, but they just didn’t like the food.

“This experience was invaluable to Bill,” continued The Voice. “He changed his menu and chef, trained his servers to be more attentive and professional, then added new selections to the wine list.

“Today, Bill’s business is doing very well with a growing number of regular customers. Now, at each table sits a brief, postage-paid customer survey, so Bill gets regular feedback on how they’re doing.”

“Will people tell the truth?” Ron wondered aloud.

“Yes. As a general rule they will be honest,” replied The Voice. “However, the most important thing to do with a survey is to respond to the customers surveyed by changing what they object to. Or, at least have some communication with the customer if change is not possible.

“The more information you can garner from your customers about your company, the more customers you will have,” declared The Voice.

Chapter Eighteen
You Can Be Marketing Even When You're Not

Flipping through papers on his desk, Ron reflected, "Voice, carrying this thought a little further, it seems that surveys can be used not just for information gathering, but as a marketing strategy; a way to show customers you care about their opinions. This, in itself, is good marketing."

"Absolutely!" The Voice chimed in.

Continuing, Ron said, "If the survey is designed properly, it could also be used to promote additional services that customers may be interested in. For example, Bill's restaurant survey could feature a friendly reminder that the restaurant's catering service could handle the customer's next party."

"Great idea," praised The Voice. "There's no doubt a well designed customer survey is a great marketing tool. It not only lets you know what's in the customer's head, but also generates new business opportunities.

"The more you know about yourself, your products and services, *and* your customers, the more effective you can be at marketing," concluded The Voice.

Chapter Nineteen
Expand Market Share By Narrowing The Market

The Voice declared, “Step Number 2 of our 4-Step marketing program is to understand the market you are serving.

“Ron, do you have unlimited resources available for marketing?” inquired The Voice.

“Yeah, right,” he answered sarcastically.

“I was being cute, Ron. I know that resources available for marketing are limited. That’s why it’s extremely important you understand the market you serve, and focus and define it as narrowly as possible.”

Ron interrupted, “Narrowing the market depends on the product or service provided, doesn’t it?”

“Sure it does, Ron, but even if you’ve got a broad market, it still makes sense to narrow that target as much as possible. If you target too large a market then you will waste your limited resources.

“Let’s say you own a dry cleaning establishment on the east side of Manhattan. Would you advertise in the *New York Times* or the local *Eastside Gazette*?

"*The New York Times* obviously has too broad an exposure for the dry cleaner. Advertising there would be a waste of resources for such a localized business. When resources are limited, think narrow," counseled The Voice.

"Got it!" said Ron.

"Let's get back to Step 2 of our marketing plan, understanding the market place."

Chapter Twenty
The Price May Or May Not Be Right

"To better exploit the market, Ron, it is imperative that you clearly understand the market's pricing requirements. You've got to know what price level your product and/or service can be sold for in the selected market. Is it too high, too low, or just right?" The Voice posed.

"I once had a conversation with James Delaney," said The Voice, launching into another story. "Delaney's business is selling an educational program to lawyers, teaching them how to market their existing services, and the program included a completely new service for lawyers to sell to their clients.

"When Delaney started the business, he offered two days of training, a marketing booklet, manuals, and volumes of forms that comprised all the materials lawyers would need to market their existing services and implement the new service. He charged about $1,000 for the package.

"Delaney knew that he was offering a high value package for a low selling price. Indeed, the price was just low enough to have a negative impact on potential customers' perception of the program. Lawyers consequently came to believe that Delaney couldn't deliver the value of the package for that low price. His sales never reached expectations.

"When Delaney realized that his program was perceived as cheap next to comparable programs, and therefore not valuable, he doubled the price of his program and..."

“Sold more product,” Ron interrupted. “I know, perceived value is an important part of price determination,” he added.

Then Ron offered a story: “I had a friend selling a sophisticated software program. When he introduced the product for $70 dollars, most people doubted the product could do what it was supposed to do for so little. When my friend raised the price 10 times the 70 bucks to $700, sales took off.”

“Go figure,” said Ron.

Chapter Twenty-one
Size Does Count

Ron listened intently as The Voice instructed, "Another critical element in understanding the market is market size and location. Is the market presently large enough for the company to prosper for a sustained period? Will the market expand over time?

"Take a look at the ethnic makeup of the market being served to ascertain whether the target market is staying put or moving away? This is particularly important if ethnicity is a major factor in the product or service you provide.

"Is the market local, statewide, national or international? The size and location of the market should never be ignored," The Voice advised.

Chapter Twenty-two
Technology Is Not Always Good

"Consider the impact of technology on the market place, Ron. Some new device that's good for the consumer may possibly wipe out your market if you don't see it coming and take appropriate action," The Voice warned.

"For a perfect example of technology's profound impact on a market, look at what's happening to large, retail chain operations. Sales have been on a continuous downward trend as more and more people use the Internet to purchase goods and services.

"Another example of technology's impact is the printing industry," The Voice offered. "With the widespread use of computers, computer graphics and high speed color office printers, anyone with a computer can be a printer. Many companies have reduced outside printing costs by doing smaller jobs in-house, resulting in major losses for the printing industry.

"Ron, it's almost to the point that reviewing a company's marketplace takes not only diligent research, but even a handy crystal ball," teased The Voice. "The more we know about technology's impact on the future of our market, the better we can prepare to harness its power."

"You bet. Technology can change a market in a nano second," commented Ron.

"Let's see, we've covered price, size, location and the impact of technology as key areas to consider when examining the marketplace," The Voice summarized.

"Let me conclude, then, with the following piece of advice," The Voice offered. "Find out as much as you can about the market to be served so your marketing program uses the company's limited resources to maximum effectiveness."

Chapter Twenty-three
Knock, Knock. Who's There? Opportunity!

"So," The Voice continued, "the third element in marketing is communication. Remember, find a way to tell *Opportunity* where the door is. Communication is the most important element in getting the prospect to the seller.

"There are many ways to communicate to the market place, so I'll just name a few. You will have to decide which would be the most appropriate for your company," The Voice advised.

"Advertising is a great way to get your story out but it's expensive and sometimes the results are hard to judge. For certain types of products and services, advertising is a must.

"The media often provides free exposure when you succeed in placing new product announcements, promotions, press releases, and articles relevant to your business into newspapers and magazines."

"Do people read these things?" asked Ron.

"Usually not," The Voice replied. "Harold Warner used to write many articles for a local business journal. He heard on a regular basis from many of his friends and colleagues who 'saw' his articles in the local papers. Harold would always ask if they had read any of his pieces, but the answer was rarely yes. The usual response was 'No, but your picture looked great.'"

“Then why bother?” griped Ron.

“Creditability is the primary reason,” The Voice replied. “Getting published enhances your reputation. When this happens, it’s a good idea to make lots of copies and send them out to customers, friends, prospects, and anybody you ever met. It’s a subtle way of telling all these people how great you are,” The Voice said with an invisible wink.

Laughing, Ron realized he was actually enjoying this dialog with The Voice, and had no idea how long they had been talking.

“Now, let’s talk about the company brochure,” The Voice said. “They’re expensive, only sometimes read, but often necessary. The brochure gives customers their first and lasting impression of the company so it’s critical that it be a positive one.

“My friend, Janice Gordon, was interviewing PR firms to hire for a software product marketing campaign.” The Voice began. “She invited her friend, Sally Douglas, to make a proposal for the job. Sally’s reputation was good and her PR firm met Janice’s requirements. However, when Sally delivered her proposal, along with her company’s brochure, Janice was so distressed with the brochure’s amateur appearance that Sally’s firm was never considered. Sadly, their friendship couldn’t recover from the negative first impression Janice had of Sally’s work.”

“A PR firm with bad PR,” said Ron, summing up the problem.

"It's very difficult, if not impossible, to overcome negative first impressions," The Voice warned.

"How about newsletters?" The Voice proposed, answering the question before Ron could. "They're costly and require a lot of time to prepare on your own. But the newsletter business is undergoing an interesting change due to technology. E-mail newsletters, allowing the recipient to literally determine the kind of articles they want to read, are becoming quite popular and are much less expensive to distribute.

"Newsletters are just another way to keep your company's name in front of existing and potential customers," said The Voice. "If you go this route, consider purchasing a canned newsletter designed specifically for your industry."

The Voice and Ron fell still.

Breaking the silence, Ron urged, "Keep going, Voice. I'm taking it all in."

Seemingly refreshed, The Voice declared, "Presentations or public speaking is another excellent marketing tool. You've got a captive audience and valuable time to bond with attendees."

"Never works," Ron shot back, discouraged. "I've made many presentations and people told me they liked what I had to say. They grabbed my business cards and then I waited for calls that never came."

"Ron, did you ever think about calling them? Why wait?" chided The Voice.

"I know an insurance person who immediately after making presentations aggressively calls attendees. He gets many meetings and opportunities to sell his products, and does quite well from his presentations.

"Ron, always ask for the meeting," The Voice added. "You know, tell *Opportunity* where the door is."

"Now let's consider telemarketing, a technique currently used quite extensively by lawyers, accountants, consultants, software vendors, insurance companies and even funeral homes, to mention a few.
Ron, would telemarketing fit your company?" The Voice queried.

"I've used it in the past, and it wasn't successful."

"How about an Internet website?" The Voice inquired. "If you don't have a company website, Ron, you're way behind the times.

"The company website is an online brochure integral to today's business community. Your website should include a New Hires section because prospective employees always research a company's website before interviewing for a position. And, if they don't, they haven't done their homework.

“Finally, Ron, let’s talk about networking. You know, attending mixers, trade association meetings, conventions, charitable activities--essentially, going any place the prospects are. In certain businesses, for example, personal service companies, making direct contact with potential customers is one of the most effective ways to market products and services.

“Networking is how you fatten your Rolodex, Ron. The more direct contacts you have and the more people you know, the better the chance that opportunities will come knocking on your door. Remember, the goal of marketing communication is to tell Opportunity where the door is. Get the prospect to the seller.”

Chapter Twenty-four
Calendarizing

"Finally, Ron, here's how you can develop a written marketing plan quickly and easily. The forth element to a successful marketing plan is Calendarizing," The Voice revealed.

"Calendarizing may be a strange word, but it makes the process easy. Here's the concept. Get a hold of a calendar for the next 12 months. On the month of December indicate on the appropriate days what marketing activities will take place in that month.

"After you have noted activities for December, go back to the month of November and write, in that month, each activity that must take place in November to facilitate the marketing efforts you've scheduled for December. For example, assume that in December you're going to attend a trade show. In November then, you had better make sure that the booth has been prepared and transportation has been arranged. So, you note these necessary activities on the November days.

"While you are in November, schedule any new marketing efforts you want to have in November. Then, go to October and write in all the things you need to accomplish to facilitate the marketing campaigns you've scheduled for December and November. Then, add new marketing activities you plan for October.

"As you can see, if you lay out the calendar in this fashion, well in advance, chances are that very few tasks will fall through the cracks. You will have created a written marketing document that all employees can use to ensure that marketing activities are handled consistently on a regular basis.

"Calendarizing eliminates seat-of-the-pants marketing, giving you a dynamic document that displays your company's marketing activities and the necessary tasks for the next 12 months," The Voice declared.

Personnel Strategies

Chapter Twenty-five
An Old Friend, The Bell Curve

"Ron, when you began a new class in school, did you ever fear the instructor would grade the class on an absolute scale?" queried The Voice.

"Huh! What does that have to do with anything?" Ron returned.

Ignoring Ron's comment, The Voice continued, "You know, 90-100 you got an *A* grade , 80-90 earned you a *B*..."

"I did," Ron reflected. "My classmates and I prayed that the instructor would grade on the Bell Curve, so the grades would be distributed based on the individuals' abilities in that class."

"The Bell Curve was a life saver, wasn't it?" The Voice interrupted.

Grinning, Ron nodded.

"So," The Voice continued, "when the Bell Curve was used to assign grades, the borderline *B* student would move up to an *A*, the student close to a *B* would get the *B*, and the rest of the class would get *C*s with some *D*'s and few, if any, *F*'s. You were graded against other members of the class, rather than on some absolute scale that was often impossible to achieve.

"The Bell Curve resulted in most of the students receiving an average or C grade. You know something, Ron? The Bell Curve has never gone away," The Voice revealed.

"When you look at the structure of a typical company, you find that most companies are shaped like a pyramid; fewer people at the top and more people towards the bottom. If you further stratify the company within this pyramid, you will discover that there is a Bell Curve within each stratification.

"The Bell Curve exists from the bottom strata of the company to the very top. Each level has it's own Bell Curve and, yes, Ron, there are *C*'s at the top," The Voice continued.

"Because of this you must realize that most of the people who are hired will be average. Frankly most people in the world are average.

Unfortunately, we judge people on a scale that simply does not exist in the real world. Have you ever hired *C*'s?" inquired The Voice.

"Never! Only *A*'s," Ron quipped with a smile.

"Of course," said The Voice.

"*C*'s are never hired, only *A*'s. Only after they're hired do we discover they are *C*'s," The Voice laughed. "This results in a great deal of frustration for management.

"If we accept the notion that the greatest number of people we hire are going to be average, then we must stop complaining about them and start training them," The Voice shouted.

"Voice, you're pontificating. Calm down," Ron urged.

"Forgive me for getting emotional, Ron, but I believe so firmly in training people that I get carried away. People are the most important asset in any company. If you ultimately want to sell your business and make the money you dream of, it's going to take a cadre of people to help you grow the business to that level necessary to reach your dreams. People are the life blood of the company," The Voice enthused.

"What happens if you become sick? Who will maintain the business while you're incapacitated? And, what happens when you want to retire? Who best to buy you out if the big bucks don't come along? Your existing, highly trained employees, of course," concluded The Voice.

Chapter Twenty-six
Maintain The Equipment *And* The People

"It's always ironic to me how people in business spend such a great deal of time and money taking care of their equipment with all the maintenance contracts and mechanics they hire to keep the machines working.

"So much effort to maintain machines, so little effort to maintain people," The Voice said with the fervor of an evangelist.

"Ron, you've got to think of your employees as equipment. The only difference between your people and your hard-asset equipment is that the people go home at night, and the equipment stays.

"Do you have any kind of maintenance program for these people like you do for your equipment?" The Voice queried. "I mean, do you train them to make them more effective at what they do? Most entrepreneurs spend so much money to maintain the hard assets of their business, but so little to maintain their people."

"Wait a minute, Voice," Ron pleaded. "You're getting carried away."

"Ok, ok. When was the last time you sent one of your employees to an educational program that would benefit them and the company, Ron?"

After thinking a moment, Ron responded with embarrassment, "I haven't done that at all. My biggest fear is that if I train people and make them really good at what they do, they'll leave for another company and use the skills I've paid for to compete against us. Or, they'll leave to start a competitive company of their own."

"You mean like you did, Ron?" The Voice observed.

Ignoring The Voice, Ron protested, "I've trained too many competitors."

"Do you really want a company of bad people who stay?" countered The Voice. "Certainly, people are going to leave. That risk is a natural part of business, but the company's overall success rests in the hands of those who stay, and they must be the best at what they do.

"Think about it, Ron. If you sent your sales people to a training course that taught them how to sell better, isn't it possible your sales would increase and your customer relationships would improve? Isn't it worth the risk and cost, Ron?" The Voice inquired.

"It's possible that additional training could make your bookkeeper perform better. You might even save some accounting fees."

Ron sat silently, taking in The Voice's every word.

Chapter Twenty-seven
The Best People Are Not Available

“Ron, personnel strategy Number 1 is to hire the best people available. Now, I could have said simply hire the best people, but the best people are, more than likely, not available. Small entrepreneurial companies are at a distinct disadvantage when it comes to hiring good people; they usually don’t have the resources to attract the top people. So, the best in the field will generally not be available,” contended The Voice.

“I try to hire real good people,” Ron interjected. “But their salary requirements sometimes makes that prohibitive.

“Unfortunately, I let economics rule whom I hire, and I must confess, I’ve hired some pretty bad people,” he lamented.

Chapter Twenty-eight
Two Skills And The World Is Yours

"Personnel strategy Number. 2 is to train your people. Make them the best at what they do," The Voice declared emphatically.

"Ron, there are two skills that if mastered will almost guarantee success for an individual, and have a positive impact on your company's long-range strategy. Todd Jacob, a friend and gifted speaker..."

"Another story?" Ron interrupted.

"Let me tell you about an experience Todd related to me," said The Voice, dodging the question.

"Todd's niece Jill, a pre-med student at UCLA, asked him to make a presentation at UCLA on success strategies. Todd was quite flattered. What excited him most was the possibility of speaking to 5,000 or 10,000 students. Todd asked Jill where he would be speaking, visualizing a very large audience."

"When Jill told him he would be lecturing at a dormitory, Todd was disappointed. 'I'll have to settle for a smaller number,' he told himself."

"When he asked Jill how many students in a dorm, she answered, 'About 2,000, but you won't be speaking to the entire dorm. You'll be presenting to a small group from the sixth floor. We expect 20 to 30 students to show up.'"

"Todd patched his bruised ego and accepted the invitation. Arriving at the dormitory, he saw signs plastered throughout the halls announcing his lecture on "$uccess $trategies." How interesting, he thought, that the two S's were dollar signs."

"Todd was quite surprised that students equated success with money. For some reason, he had the idea that students no longer measured success in terms of dollars, but rather, in other less material ways. However, his task was not to teach students how to measure success, but to give them strategies to become successful."

"After careful thought on the subject, Todd concluded that if a person could master two things, then success would be virtually assured."

"Todd told the assembled students, 'First, success demands that you master the technical skills required of the position you occupy or are striving to achieve. Know your job better than anyone else. Spend the early years of your chosen field learning, learning and learning. Be the best at what you do.'"

"Todd continued, 'Once you have effectively mastered the technical skills of the job, the second task is to master the art of communication.'"

"'How many times have you been confused by a repair person trying to explain why you needed to purchase a new part for your appliance? And the times you talked with your accountant, wondering the whole time what he or she was really saying? And, if you're lucky enough to have your attorney return your telephone call, did he or she only confound you even more with equivocation and legal jargon?'"

"'This happens all the time,' Todd added. 'A person has great skills but can't communicate with those who don't have the same knowledge base—they only confuse. What is the value of knowledge if you can't communicate what you know to another in a manner they can understand?'"

"'The communicators will almost always have the advantage. Train people in the skills necessary to master their job, and teach them how to communicate,' Todd concluded. 'Success will then be unlimited.'"

The Voice quizzed, "Do you have any money set aside to train your people over the next twelve months, Ron?"

"No," Ron replied sheepishly, "but what you said does make sense."

"Train them, Ron, then train them again, and then train them some more," The Voice advised. "Teach them to be the best at what they do *and* teach them the art of communication. Sure, Ron, some will leave but those who remain will be invaluable."

Chapter Twenty-nine
I Pay Them, I Expect Performance

"Personnel strategy Number 3 is to reward excellent performance," The Voice proclaimed.

"Ron, it's very frustrating for employees when they do a better job than their co-workers, but they often continue to receive the same compensation as less productive co-workers. Believe me, all employees know who goofs off and doesn't carry their load. It can be quite demoralizing when everybody, including the low performers, earns the same money for unequal effort.

"To overcome this it is very important that you set up some kind of a reward system for those who are high performers. Rewards can range from a simple have-dinner-on-me type of surprise to a full-fledged bonus system.

"Always, where possible, reward excellence," The Voice urged.

"Well," Ron paused, "conceptually I understand what you're saying. But I'm from the old school that says when I pay someone I expect them to perform at their highest level. To reward them for what is expected of them just doesn't feel right. I have a difficult time with the warm and fuzzy stuff, especially if it feels contrived," Ron confessed.

"I understand completely," assured The Voice. "Comfort with this may require a major shift in attitude, and it will take time, but it's important enough that you make the change.

"For starters, try this: when you're feeling particularly positive during the day, just walk up to a special employee and say, 'Thanks for doing a good job for us.' Their reaction will be worth the effort and you'll make their day. It will become easier the more you say it.

"And Ron, remember that sending an employee to a special training program is a great reward and an excellent morale booster. It tells employees they are valued by the company and the company is willing to invest in them."

Chapter Thirty
Management Shouldn't Be Doing Everything

"Now, there's one more key strategy we need in human resources. Personnel strategy No. 4 is to push responsibility to its lowest level," The Voice asserted.

"You mean give people more responsibility?" Ron ventured.

"Yes! For any company's long-range success, management must transfer responsibility to others. Management must delegate and allow people to make mistakes. This is the primary teaching mechanism within the organization. If this isn't done then existing management does everything and nobody else ever learns enough to take on more responsibilities," The Voice observed.

"Let me tell you about Ed Jacobs, a lawyer who believed strongly that giving others more and more responsibility would help him grow his law firm.

"True to his philosophy he turned over one of his largest clients, Stan Kohn, to an associate. Of course, Ed stayed involved but on a supervisory level.

"One day Ed received a call from his client requesting a meeting. He was certain the client was going to complain about Ed not being as involved with his client's affairs as he had been in the past.

“When they met, Stan said: ‘I have often admired you as a lawyer but now I am convinced that your greatest talent is your ability to hire good people. Your associate, David, is excellent. And, you should be proud of the team you’ve built.’

“Ed was surprised at Stan’s compliment and felt elated. Then Stan asked: ‘Aren’t you concerned that people like David will one day up and leave, taking your clients with them?’

“Of course I am,” Ed told his client. “However, I have one special trick that I use to keep them.”

“Tell me what that is,” Stan implored.

“I give them lots of responsibility, pay them well and make certain they remain an important team member. If they like what they do, make good money and see a great future, they stay. Will they stay forever? Maybe yes, maybe no. But I make it hard for them to leave.”

Operational Planning

Chapter Thirty-one
My Competition Likes To Lose Money

"Ron, tell me about your market place from the perspective of the competition. What's it like?"

"Awful," Ron lamented. "For some reason, my competition seems to like losing money. They sell their products at ridiculous prices. It's almost impossible to be competitive. I have a very difficult time maintaining my margins. Any suggestions?"

"Of course," The Voice retorted. "As I hear it, your competition seems to be dictating the price of your product. Right?"

"Right," Ron nodded, unconsciously tapping his desk.

"Ron, stick with me a minute while I ask you some questions," The Voice entreated.

"I've been sticking with you all morning, Voice. Why would I stop now?" Ron shot back.

"Good," The Voice continued, "Let's say the sales price of a product is $100 and the profit you'd like to make is $30. If we subtract $30 from $100, we have $70 left over. Ron, what does the $70 represent?" The Voice quizzed.

"The cost of the product?" Ron ventured.

"Not necessarily," replied The Voice. "You may or may not be able to produce the product or service at a cost of $70. Since the market is dictating the price, and you're dictating the profit, then what's left over is the cost you must meet to maintain the profit you would like to achieve.

"The $70 is not the real cost, but the targeted cost. The cost you must produce the product for or else the profit will shrink. If this is what is happening in your market, you must take action to reduce the cost of producing the product.

"You must become the low cost provider of the product you're selling," urged The Voice.

"I can't see you but you're definitely in fantasy land. It's impossible!" Ron barked impatiently at the sound coming from nowhere.

"Ron, if you keep shouting your employees will really think you've gone nuts. It's bad enough they hear you talking to yourself, but shouting? Not good."

"Cute," said Ron. "You sit and pontificate while I have to do the job. It's real easy to tell me what has to be done. But who has time to do all that you're suggesting?"

"Ron, what we're doing here is setting up a plan to work *smarter*, not work *harder*," The Voice retorted. "It won't be easy, I grant you that, but the rewards will be worth the effort."

"By the way, Ron, I haven't told you anything you didn't already know. We're just developing a plan that will guide you in doing what you know must be done."

"Damn, your right. It's just very difficult to keep it all straight. I'm beginning to feel overwhelmed," Ron confided.

"Hang in there, Ron," encouraged The Voice. "The first business person I ever got involved with was so stressed out that he contemplated…Aaaa, not important. His name was George. Fortunately, I was able to help George by showing him how important he and his business was to his community. They had enriched many lives. I helped him organize his company and guided him to reach his dreams. All he needed was a nudge in the right direction and applied effort. George was a very special person, just like you, Ron."

"OK, I'm alright," Ron said calmly.

"Now, let's take a look at some things you should consider to help the company become the low cost provider.

"You must evaluate all production processes. Break each process into as many steps as you can, then decide what steps can be discarded. A number of years ago, I had a conversation with Jeff Alpert..."

"Oh, so I'm not the only crazy one," Ron interjected.

"You're not the only one," The Voice assured him, continuing. "Jeff had the same problem you're having in trying to reduce costs. Taking quite a unique approach, he called in his production people, sat them down in a conference room, and made the following statement:

"'We need to make an all-out effort to cut production costs by 5 to 10 percent. I need your help. Please tell me, within two weeks, what actions we can take. Meet as often as you like and take whatever time you need. I'll leave it in your hands.' Then Jeff got up and walked out of the room.

"Two weeks later his production staff invited Jeff to a meeting and laid out a plan for his approval. He was flabbergasted; the plan showed perfectly how to achieve a 9 percent reduction in costs.

"Jeff had learned a valuable lesson. Employees have many ideas on how to save money, improve production, cut costs, and so on. But they rarely tell anybody. Do you know why, Ron?" queried The Voice.

Ron shrugged his shoulders.

"Nobody asks," The Voice answered.

"Typical employees," Ron shot back, leaping from his chair. "They come to work, never volunteer anything, do their job, then they're gone. Never any extra help."

"Ron, what image do you present to them? A company of individuals or a company of teams? Have you ever shared with them the company's goals and strategies, your aspirations, or the problems you're having?

“Is this an open organization? Or is everything close to the vest? Give it some thought, Ron.”

Ron pondered that idea as The Voice continued.

“Let’s return to our discussion on becoming the low cost provider. As you know, Ron, when you sell a commodity, like a sack of potatoes, the price becomes the critical element in the consumer’s mind.

“One sack of Russet potatoes is just as good as another. Price is the only consideration,” observed The Voice. “But, when you add some value or service to the product, then price becomes secondary and you have, in effect, reduced the commodity aspect of pricing.”

“Come to think of it,” Ron cut in, “I remember reading about a taxi driver who wanted to give himself a competitive edge. A taxi ride is a commodity with a regulated price, but the tip is the additional element a satisfied customer pays for exceptional service.

“This driver kept the interior of his taxi spotless and fresh smelling, cleaning it two or three times a day. He acquired a cell phone and had business cards printed with his name and cell number. He gave everyone of his passengers his business card along with the friendly reminder that he was ‘only a cell call away.’

“Getting a taxi is often not easy, but he made riding in his taxi a relatively enjoyable experience. His cell phone began to ring off the hook with people wanting to make reservations with him, and he developed a large following. Eventually, he became the largest revenue producer for the cab company, and he made a bundle in tips," concluded Ron.

"That driver instinctively knew that adding service would work to his advantage," The Voice affirmed. "Additional service made the price secondary and customers were glad to show their satisfaction in tips. Value-added service is vitally important in today's competitive environment."

Chapter Thirty-two
We Always Did It That Way

"Another way to ensure you are the low cost provider is to make certain the company is operating at peak efficiency," suggested The Voice. "Look at all areas of production and eliminate items and tasks that are no longer necessary.

"As you know, Ron, people and procedures get stuck in ruts, what we call paradigms today, and these can go on forever. You need to make sure that all practices have relevance, otherwise get rid of them.

"Paradigms are a disease within a company, relics from the past we do just because it has always been done that way, even though they are no longer relevant.

"Here's a story that captures the dilemma of paradigms perfectly," said The Voice. "Michelle Justin was a bookkeeper at a real estate company. Consultant Howard Bernstein was asking Michelle some questions to find out what functions and responsibilities she and each of the others in the department had:

'Michelle, what does that lady over there do?'

'She does bookkeeping,' Michelle responded.

'I thought you were the bookkeeper?' Howard asked.

'I am, but she keeps the hand set of books.'

‘What do you mean, the hand set of books?’ Howard inquired.

‘Well, I keep the books electronically and she keeps them by hand.’

‘You both keep the same books?’ Howard pressed.

‘Yes,’ Michelle responded. ‘When we started using computers, the owner wanted to run parallel to catch any problems during the transition from manual to computer books.’

‘Ok, I follow,’ said Howard, ‘and how long ago was this transition implemented?’

‘About five years ago.’

‘You have been running parallel for five years?’ asked Howard in disbelief. ‘Why wasn’t it discontinued?’

‘Nobody told us to,’ Michelle replied.”

“Come on, Voice,” Ron exclaimed with equal disbelief. “That sounds too ridiculous to be true.”

“Ron, that story is absolutely true but I did change one thing. They actually ran parallel for about ten years. I thought it wasn’t believable so I fudged the number of years,” The Voice admitted, slightly embarrassed.

“Amazing!” Ron mumbled.

“Take a hard look at your operations, Ron, and see if you have any old, obsolete activities going on. If you find any, toss these relics out.

“Also while you’re reviewing the operational side of the business, look at the possibility of expanding your use of technology. Greater, and *smarter* use of technology may improve operations.”

Chapter Thirty-three
How About Something New!

"Voice, you keep giving me stuff I already know, harping on basic concepts. How about something new? Something more useful," Ron said with obvious frustration.

"You may know the concepts we discussed, Ron, but for some reason they haven't been put into use in your company," The Voice reminded him. "You have no company goals, no marketing plan, no financial plan, and you complain about your people.

"If you follow the plan I'm outlining, your business will be in better shape, and you'll have much less stress in your life."

"Voice, frankly, I'm on overload. I know what I should be doing to make my company better and, yes, it's pretty basic. But it seems the company is running me, rather than me running the company.

"Then, you come along and offer appropriate ways to manage the business more effectively, and now I'm feeling incompetent and guilty," Ron confessed.

"I know how you feel, Ron. It's not unusual for people in management positions to doubt whether they are effective managers. No one tells entrepreneurs they are doing their job effectively. Not much praise for the top. Often, there isn't even anyone to talk to."

“How true,” Ron agreed, grateful for empathy from someone, even an invisible someone.

“Ron, I promise you, when we’ve finished our discussion, we’ll design an action plan that makes implementation of what we’ve covered today organized and feasible.”

“OK,” Ron said softly, “Let’s move forward.”

“The next item on my lengthy list is, make your purchasing department a profit center.”

“What do you mean by that? Purchasing is a cost. How can it become profitable?” Ron shot back.

“The paradigm is that purchasing is a cost. But you’ve got to switch that paradigm. Think of purchasing activity as a profit making endeavor, not a cost. By controlling the purchase of goods and services, you can reduce the product’s cost thereby contributing to the company’s gross margin.

“Many times purchasing people don’t look for cost savings that, with a little effort, they might find. Remember, it’s easier to sell something to an employee of a company then it is to the owner. It’s not their money,” The Voice observed wisely.

“True,” nodded Ron.

“So, let’s summarize what we have covered regarding the company’s operational strategy. We concluded that it is important that the company strives to maintain the status of being the low cost provider of its product and/or services, and there are several ways to accomplish this:

"First, provide some level of added value or service to the product so that price becomes secondary, thus reducing the commodity aspect of pricing.

"Second, examine all areas of production and eliminate procedures that are no longer necessary.

"Third, consider possible ways to expand the use of technology. Staying abreast of technology changes and implementing technical innovations can improve operations, and will certainly keep your company competitive.

"Fourth, make your purchasing department a profit center by insisting on smart buying

"Fifth, always monitor the final costs of any bids or proposals the company makes. When you get the jobs, make certain that you measure the final results against the original proposals.

"One of the best methods for developing future proposals and remaining competitive is by reviewing past proposals to confirm that proposed costs were in line compared to the actual results."

Financial Planning

Chapter Thirty-four
Predicting the Future

"It's clear, Ron, that marketing strategies and operational planning will help the company achieve its goal of profitability. But it's equally important for the company to develop a financial plan. A financial plan gives management the ability to see the *future* impact of these strategies on the company's profits and cash flow.

"Remember when I said earlier that Robert Alvarez didn't spend enough time in the future and you questioned what I meant by spending time in the future?" The Voice asked.

"Yes, I do."

"Financial planning will not only help the company increase profits and cash flow, but will be the *predictor* of the company's financial future.

"The greatest power that management has, although it is the least often used, is the ability to predict the company's financial future," The Voice declared emotionally. "If management doesn't like what the future holds, then management has the power to change how that future looks by changing current practices."

"What in the world are you talking about?" Ron said with noticeable irritation. "I hope you're not getting into that budgeting nonsense." "Ron, I know you don't like the concept of budgeting and, frankly, I don't either," The Voice replied. “Budgets in entrepreneurial companies are more a waste than a benefit. They’re never used in the traditional sense to control expenditures, and after the budget is busted, the process is ignored.”

“A waste of time for entrepreneurial companies! “Hallelujah!” Ron shouted.

“No budgets, Ron. No budgets. But...”

Chapter Thirty-five
Don't Neglect the Balance Sheets

"Management must adopt an annual financial plan that includes these key items," said The Voice in a scholarly tone. "Procedures to collect money owed the company (Accounts Receivable); a regular review of inventory, making certain old stuff is junked or turned into cash; monthly financial statements; a 12-month profit-and-loss projection to keep you informed of the company's future profitability; a 12-month cash-flow projection so you'll know your cash requirements in advance; and 12 months of projected balance sheets."

"Great, no budgets, just profit-and-loss (P&L) and cash-flow projections?" Ron queried. "And why the balance sheets?"

"Two reasons," The Voice replied. "First, the balance sheets let you know whether you will meet any loan covenants you have over the next 12 months.

"Second, and most importantly, the balance sheet is the way to confirm that the P&L and cash-flow projections make sense."

"I don't get it," Ron said.

"Recently, I was having a discussion with an entrepreneur who had a set of financial projections prepared," The Voice replied.

“After reviewing the P&L and cash-flow projections, the entrepreneur was ecstatic. Profits and cash flow were going to reach record highs for the company. The future looked great. However, upon reviewing the balance sheet, she noticed that the accounts receivable were lower than they had been in the last five years. The balance sheet made no sense,” revealed The Voice.

“The reason the projected accounts receivable were so low was that the projected collections from sales were too high. The balance sheet is indispensable as the check to make certain the assumptions used in preparation of the P&L and the cash flow are realistic.

“Ron, many companies only have a projected P&L prepared, which may be helpful, but it’s only one piece of the financial puzzle.

“What good is it if management doesn’t know their future cash requirements. Not knowing how long cash will last results in many, many sleepless nights. Preparing all three financial projections is absolutely necessary.”

“Most financial people I’ve employed in the past only did the P&L,” Ron reflected. “I never got a cash-flow or balance sheet from them. I’ll have to change that,” he added, resolutely.

“By the way, Ron, take a look at www.cashplan.com. They offer a software that does all the projections for you, including the balance sheets.”

Chapter Thirty-six
Bookkeepers And Salespeople Hate Collecting

“Ron, before we go further into using financial projections, we need to talk about managing the Accounts Receivable,” cautioned The Voice.

“Your show,” Ron said encouragingly.

“I have a question,” The Voice said.

“Shoot.”

“Who, in your company, is responsible for the collection of Accounts Receivable?”

“Margaret, my bookkeeper,” Ron returned.

“How’s she doing?”

“Fair.”

“Just fair?” prodded The Voice. “I have often wondered why one of the largest assets a company owns, Accounts Receivable, is managed, not by design or plan, but by an attitude of ‘when there is time.’

“What are you talking about?” Ron shot back.

“Bookkeepers are very busy people. Maintaining the books, doing billing, preparing financial data for management, dealing with vendors and a multitude of other items means that collections get pushed to the bottom of their priority list.

“Accounts Receivable collections become a catch-as-catch-can operation. So, with no solid system for collecting money, the company inevitably faces a cash crunch resulting in a mad rush to get the dollars in.”

“Sounds familiar,” Ron interjected.

“Not a very effective way to manage collections,” observed The Voice.

“Margaret’s not too bad,” Ron defended. “When she’s on overload I get a salesperson to help her with collection or sometimes I get involved.”

“I’ll bet your sales people love asking for money,” said The Voice, sardonically. “Ron, asking for money establishes a somewhat negative relationship between sales people and the customer. That relationship should always be positive. Sales people hate the idea of collecting and will avoid it like the plague,” advised The Voice.

Chapter Thirty-seven
Not A Bad Idea

"Ron, here's an idea to make the collection process far more effective," The Voice suggested.

"Hire a person whose sole responsibility is to collect from customers. Nothing else," The Voice stressed. "You'll need someone who is capable of building relationships, and gently nudging customers into parting with dollars regularly, someone organized and able to monitor all collection arrangements from start to finish.

"Do this and I can practically guarantee you an increase in collections," The Voice said confidently. "More than likely, this will be a part-time job depending on the volume of work."

"Not a bad idea," Ron replied, searching for pencil and paper to jot it down.

Chapter Thirty-eight
Inventory Is Not An Asset

"Now, let's spend a few minutes on the inventory portion of financial strategy. First, a question for you. Is inventory an asset?" The Voice queried.

"Of course, it's an asset," Ron retorted.

"I know that it sits on the balance sheet as a asset," The Voice cautioned. "Accountants *say* it's an asset, and the financial community may loan against this asset, but it's not an asset. Inventory is a liability, Ron. Get rid of it as quickly as you can.

"It drains cash flow. Entrepreneurs fall in love with it and it hangs around too long. Then, when it's old, nobody wants it," The Voice exclaimed. "The strategy is control the inventory. Keep it fresh and saleable."

"I suspect we have some junk we could get rid of," Ron confessed.

"There are no easy solutions to inventory control, but I do have some practical suggestions," The Voice offered. "May I continue?"

"Be my guest," Ron chuckled.

"Ok, here's the good news," The Voice began. "You don't have to maintain records on your entire inventory. Usually 20 percent of inventory items accounts for 80 percent of the dollars. So, use perpetual inventory records on the 20 percent that account for the 80 percent of the dollars. It may not be necessary to keep detailed records on the 80 percent of items that only account for 20 percent of the dollars.

“Take physical inventories regularly and compare the physical inventory with your perpetual records to test the reliability of the perpetual records.

“Taking a physical inventory can be a daunting task, so take counts on a cycle. This may mean counting a fourth of the inventory every three months or a sixth every two months.

“Small and low value items should not be included in routine inventory counts. Count them once or twice a year. Use your judgment.

“If the physical inventories and the perpetual inventories are in agreement, the perpetual inventories should be used for financial accounting. Differences between physical inventory and perpetual inventory should be reconciled,” The Voice advised.

“As soon as an item appears to be slow moving, reduce the price and get rid of it. This will keep your inventory always fresh.

“When manufacturing a product, develop a cost accounting system to aid in the determination of the product’s price. Adopt and maintain written policies and procedures to control the inventory. And, Ron, get rid of the junk. Turn it into cash," urged The Voice.

"Right now, we're doing most of what you suggested, but we can do a better job of getting rid of old, obsolete merchandise," Ron agreed.

Chapter Thirty-nine
Financial Statements Can Talk

"Ron, the other day you received your financial statement from your accountant. What did you do with it?" The Voice inquired.

"Well, the first thing I did was look at the profit-and-loss to see how we did for the quarter. Actually I went straight for the bottom line."

"Then what?" The Voice prodded.

"Glanced over the expenses, made some mental notes, then I filed it."

"That's it?" asked The Voice.

"Yep!"

"Any value to the process?" pressed The Voice.

"Not really."

"What's the problem?" The Voice inquired.

"Well, I've never been much of a financial or numbers guy. I'm more of a sales person, and more technically oriented," Ron revealed.

"I don't always understand accounting mumbo jumbo. Sometimes I think my accountant doesn't understand it either!" Ron laughed, then added, seriously, "Statements seem stagnant. They don't have any real meaning or value to me. Basically, the bank needs them so I can maintain my line of credit. We certainly want to keep the bank happy."

"Well," said The Voice, "I once ran into an accountant who periodically trained other accountants on how to develop their business advisory skills. During the course of his training he would ask the accountants to explain the purpose of financial statements.

"Amazingly, he told me, the accountants would fumble around for answers and typically come up with these two reasons: to secure bank loans and prepare tax returns. Only once in a while would someone offer a third reason: to let management know how the company was doing.

"Ron, the company's financial statements are one of the most useful tools available to help the company make more money. Let me repeat," The Voice emphasized. "Make more money!

"Like yourself, most entrepreneurial managers are not financial or numbers people. The majority are trained in sales or some technical field. They don't know how to use financial data to help them run the company. They think, as you said, that it's mumbo jumbo.

"Financial statements must be designed to 'talk' to management. When they are designed that way, they give management excellent direction on where and when resources should be concentrated to increase profits and cash flow."

"Yeah, right," Ron quipped. "My financial statements talk to me all the time. I just don't hear them."

"Ron, bear with me for a few minutes, and I will pass on the secret of how to get your financial statement to talk to you."

Chapter Forty
Talk To Me

"Ron, take a look at your computer screen," The Voice directed. "What do you see?"

Amazed, Ron replied, "I don't know how you did this, but my financial P&L statement is sitting right there."

SALES	$575,000
COST OF SALES	300,000
GROSS PROFIT	275,000
EXPENSES	
Accounting	1,000
Advertising	25,000
Auto	5,000
Consulting	2,000
Depreciation	5,000
Interest	4,200
Payroll taxes	15,000
Promotion	5,000
Rent	28,000
Salaries - administrative	35,000
Salaries - office	19,000
Salaries - sales	45,500
Supplies	1,800
Telephone	5,500
Travel	5,500
TOTAL EXPENSES	177,300
NET INCOME	$ 97,700

“OK, tell me what you see,” The Voice urged.

“Like I said earlier, pretty boring stuff and I don’t hear a thing,” Ron said laughing.

“Yes, the numbers are silent, no clue on where you are compared to where you wanted to be, and no direction on actions to take,” The Voice agreed.

“So, let’s add a column for comparing the *projections* to the actual results and see if that makes a difference,” The Voice suggested. “Take another look at the computer now. Tell me what you see, Ron.”

	Actual	Planned	Difference
SALES	$575,000	$615,000	$ (40,000)
COST OF SALES	300,000	320,000	20,000
GROSS PROFIT	275,000	295,000	(20,000)
EXPENSES			
Accounting	1,000	1,500	500
Advertising	25,000	29,500	4,500
Auto	5,000	3,500	(1,500)
Consulting	2,000	2,500	500
Depreciation	5,000	5,000	-
Interest	4,200	4,200	-
Payroll taxes	15,000	10,000	(5,000)
Promotion	5,000	6,000	1,000
Rent	2,800	2,800	-
Salaries - administrative	35,000	32,000	(3,000)
Salaries - office	19,000	19,000	-
Salaries - sales	45,500	40,000	(5,500)
Supplies	1,800	2,000	200
Telephone	5,500	4,000	(1,500)
Travel	5,500	1,500	(4,000)
TOTAL EXPENSES	177,300	163,500	(13,800)
NET INCOME	$ 97,700	$131,500	$ (33,800)

“Sales are less than planned,” replied Ron, eyeing the screen intensely. “Some expenses are over and under compared to the plan, and profitability is significantly less than what we expected.”

“Getting the picture?” The Voice asked.

“I sure am. The data I’m looking at is pointing out areas where we missed our target during the period. Now I’m thinking about what I, as a manager, need to do since we haven’t done as well as planned for.

“First, I guess I should be asking the obvious questions. Why are sales down? I need to know why expenses in some areas are not what they should be. I notice that our advertising expense is down, which seems pretty good on the surface, but I think I need to find out why it’s less than projected.”

“Interesting, isn’t it, Ron,” The Voice chimed in. “The financial statement *is* talking to you, giving you direction, and you heard it loud and clear.”

Ron nodded in awe.

“You’re on the right track,” The Voice continued. “But, before any decisions can be made as to positive or negative aspects of the data, you need to gather more information.

“A decline in an expense, at first glance, may be OK, but in fact, it may signal trouble. Getting behind the scenes to find out why the expense did not reach the level anticipated is critical,” cautioned The Voice.

"Let me give you an example, Ron. You noticed that sales are down approximately $40,000 for the period, and that your advertising expense is down almost $4,500, which appears to be a plus. However, after asking the right questions, we learn that the company advertised in XYZ Periodical every month for the past four years.

"Like a clock, $4,500 every month. Upon further investigation, we discovered that unfortunately XYZ Periodical has gone out of business. We know that the $4,500 of our monthly advertising expenditure with XYZ Periodical produced approximately $40,000 in monthly sales.

"Houston, I think we have a problem," The Voice chuckled. "Our sales are going to be down $40,000 per month until we can find another advertising outlet as effective as XYZ Periodical and hopefully drive sales back up.

"Until we do that, the result is going to be a major decline in profitability and a negative impact on cash flow," The Voice warned.

"Clearly," Ron observed, "we thought that the reduction in advertising might have been OK, but obviously not."

"Now what?" The Voice pressed.

"Get out there and replace the advertising and hope it generates $40,000 in new sales," answered Ron.

“Neat trick if you can do it. However, there’s one thing we need to do immediately,” urged The Voice.

“What’s that?”

Chapter Forty-one
Only Zeros Make Sense

"Ron, when you look at the financial statements and compare them to the financial projections, the goal of the process is to have zeros in the difference column," The Voice declared.

"That's easy enough," quipped Ron. "If they don't match up, change the plan."

"Well, that certainly is one way of doing it and it may be the only way of doing it. However, what do you think the first obligation of management is in this process?"

Ron shrugged his shoulders.

"The first obligation of management is NOT to change the plan. The first obligation of management is to change the way they do business so that actual results can be brought in line with the plan.

"Management must do everything it can to get the actual results in sync with the anticipated results. In other words, make whatever operational changes are necessary and possible to get the business operating in the manner that was originally anticipated.

"If that's not possible, then the next step is to change the plan," The Voice revealed.

“Hocus pocus, mumbo jumbo,” Ron replied irreverently. “What’s the point? Manipulate the numbers to come up with some result that probably doesn’t mean anything, anyway. I don’t get it. Why change the plan?”

“Well,” The Voice responded calmly, “some people do have a problem with the notion of changing the plan. They believe that every month there should be differences that grow from month to month. Never change the plan. You know, a stagnant budget that never changes.

“But, Ron, the financial plan is not only the blueprint for what you anticipate to happen, it’s also the plan that gives you a look into the future, and remember, the more you know about that future, the more effective you will be as a manager.

“If suddenly we find out that sales are going to be down $40,000 per month, wouldn’t you want to know the future impact of that on the company’s cash flow and profitability?” inquired The Voice.

“The only document in the entire organization that can give you a clear look at the financial future is the financial plan we developed early on.

“When facts come to the attention of management that indicate that the plan is not correct, change the plan. It’s no longer realistic. It’s deceptive about what’s going to take place in the future.

“It is far more important for management to know what’s going to happen, than to rely on prior wishful thinking about what was designed to happen," preached The Voice with utter conviction.

"The planning process, the budgeting process, whatever you want to call it, must be flexible and dynamic. It needs to change when facts change.

Early on in our conversation, Ron, you complained that the budgeting process drives you crazy, you don't want any bean counters controlling the way you're going to spend the company's resources," The Voice reminded him.

"Yeah, I remember."

"Ron, whether you call it a budget or a financial plan, if it's dynamic, the end result will be the most important documents management can use to foresee where the company is headed. Therefore, always make changes when new facts become known," The Voice urged.

Chapter Forty-two
You Have The Power

"There are three questions management needs to know the answers to at all times," said The Voice with conviction.

"How much cash will you need? When will you need it? Where will you get it? Knowing the answers to these three questions gives management a clear view of what to expect regarding the company's financial future.

"The financial plan provides answers to the first two questions, and management will need to pursue answers for the third," explained The Voice.

"It is far more effective to know this information months in advance, rather than operate by typical seat-of-the-pants management, always scrambling to find cash."

"If you could stick around and give me the answers to those questions in advance," Ron chimed in, "I think I'd be a very happy camper."

"Ron, you still don't get it!" The Voice almost shouted. "You have the power to predict the answers yourself. It's in your hands. Not mine.

"All you need to do is exercise that power. The plan, Ron, the plan. You are the sole person in your company who can make all of the things I've talked about happen. Only you, Ron.

“Step back, get out of the details, Ron. Lead your company into the future. You’re the leader. Damn it, lead!” The Voice stormed, as if preaching from a pulpit.

Silence descended on the room.

After a few moments, The Voice resumed calmly: “Wow! I got carried away.”

“You obviously believe in what you say, and are certainly passionate about it,” Ron offered. “Passion is important. Voice, I’m equally passionate about my business. I understand how you feel. I see what you’re saying.”

Chapter Forty-three
A College Exam

Attempting to lighten the conversation, The Voice then asked:

"Ron, do you know the difference between entrepreneurial management and professional management?"

"Never gave it much thought. Sounds like a college exam question," Ron quipped.

"Let me answer my own question and see if you agree."

"Go ahead," urged Ron.

"*Entrepreneurs are sales oriented and professional managers are profit oriented*," proposed The Voice. "What do you think?"

"Sounds right. Keep going," Ron encouraged.

"*Entrepreneurs manage yesterday and today, professional management manages the future*," The Voice continued.

"Often, e*ntrepreneurs glean their business education through experience whereas professional managers are formally trained*."

"How many of these comparisons do you have?" Ron wondered aloud.

"Six left," replied The Voice.

"Let me hear them all, then I'll give you my take," Ron suggested.

"*Many entrepreneurs have an I-can-do-it-better-myself attitude. Professional managers train, delegate and let people make mistakes*.

"*To entrepreneurs, financial planning is not important. Professional managers develop and maintain a financial plan.*

"*Entrepreneurs look at the financial statement profit-and-loss bottom line only, while professional managers use financial statements to make more money*.

"*Entrepreneurs fall in love with their inventory. Professional managers control and manage their inventory*.

"*Entrepreneurs demonstrate blind passion. Pros demonstrate controlled passion*.

"*An entrepreneurial company is a company of individuals. A professionally managed company is company of teams.*"

"You sure paint with a broad brush," observed Ron. "You've made entrepreneurs sound like bozos and professional managers like saints."

"The differences are certainly not applicable to all professional managers and entrepreneurs," cautioned The Voice. "But, entrepreneurs need to understand these differences so they can take a hard look at themselves and evaluate their own management style. And, if appropriate, make changes.

"Ron, entrepreneurs have a great instinct about their business, their product and the market they serve. In the business' early stages their instincts will see them through many management crises. However, as the business grows, adding more people, customers, suppliers, inventory and so on, eventually the entrepreneur needs to become more professional in his or her management style.

"The need to transition from entrepreneurial management to professional management becomes imperative."

"Yes, yes, you're right," exclaimed Ron. "It's possible that I may be lacking a professional approach in the way I manage. This may be the root cause for my distress.

"How does one make this transition?" Ron asked, now entirely ready to do more than listen.

Chapter Forty-four
The Transition

“Two ways,” The Voice replied immediately.

“One, hire experienced professional management. Many entrepreneurs hire experienced management to run their company when they finally ‘fess up’ to the fact that it may be beyond their capabilities. And, of course, the second way is to follow the concepts I have outlined during our conversation.

“Professional management establishes the long range goals of the company: making a profit, providing a high quality product and service, and building the business to last forever.

“Professional management develops and follows annual strategies to make certain all company goals are attained. As we discussed, these strategies are: a written marketing plan to prevent seat-of-the-pants marketing and ensure efficient use of resources; personnel strategies for the development of people; and regular review of business operations to make certain the company maintains profitability. Professional management develops a financial plan to provide insight into the financial future of the company and deliver answers to the three most important questions; *How much* cash will I need? *When* will I need it? And, *where* will I get it?

“Ron, how you make this important transition is up to you.”

Ron sat motionless, reflecting on the strangely uplifting experience he was having, talking to this invisible voice who now seemed like an old friend.

Chapter Forty-five
Take Action!

Breaking the silence, The Voice reminded him: "Ron, during the early part of our discussion I promised to deliver an action plan to help implement some of the things we discussed. Are you ready?"

Ron hesitated a moment then replied with a resounding, "Yes!"

"Action number one is simple: share the goals of your business with all your people. Prepare a formal document outlining the company's goals and distribute it to all your employees."

"Makes sense," Ron declared. "We all work in the same place but I'm probably the only one who knows what our company's goals are."

"Action number two is to work with your marketing team to calendarize your marketing plan for the next 12 months. This won't take too much time but will ensure that you take advantage of all marketing opportunities. Remember, tell *Opportunity* where the door is, never wait for prospects to come calling." The Voice urged.

"Right!" Ron affirmed.

"Action number three is to make certain you have the tools to give you answers to the three key questions; *How much* cash will you need? *When* will you need it? *Where* will you get it? Prepare a financial plan for the next 12 months consisting of a 12-month profit-and-loss forecast, a 12-month cash-flow forecast and projected balance sheets. Then compare each month's actual results to the plan.

"And Ron, this is very important. Don't resist making changes to the projection if facts change."

The Voice's final words were, "You must always know what lies ahead."

Chapter Forty-six
What's In A Name?

"Voice," Ron spoke softly, "I am forever grateful for the help you have given me. Although we had some tough moments in our conversation, your guidance has been a lifesaver.

"I will make changes in the way I run my business and the business plan I develop will last forever, like a guardian angel," affirmed Ron.

"Just one more thing. I've been calling you Voice throughout our conversation. Do you have a name?" he inquired hopefully.

"Yes," The Voice replied. "My name is Clarence. Have a wonderful life." And, with that, Clarence was gone.

Epilogue

In the movie *It's A Wonderful Life*, the main character George Bailey, played by Jimmy Stewart, owned a building and loan company. Cash shortages, major stress in his life and business, and an unscrupulous competitor drove George Bailey to decide to end his life by jumping from a bridge into a raging, icy river.

While standing on the bridge's ledge ready to jump, George spotted a man floundering in the water. Without hesitation, and forgetting his own plight, George dove into the water to save the drowning man. Unbeknownst to George, the drowning man was actually George's guardian angel, there to save *him.* If he succeeded in saving George's life, the angel would earn his wings. His name was Clarence.

Clarence gave George Bailey the unique experience of seeing how important his life and business were to his community, and the many lives enriched by his existence. Clarence earned his wings.

As a result of his conversation with Clarence and after implementing many of the ideas they spoke of, Ron Alexander was able to retire at age 60, just a few years beyond his goal. Ron now spends most of his time traveling around the country, speaking to other entrepreneurs about what he learned from *his* guardian angel.

Clarence was awarded a second set of wings and currently spends most of his time visiting other struggling entrepreneurs. If the stress of running your business starts getting to you, listen to The Voice; it just might be Clarence...

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-- *Daniel E. Grow*, Senior Vice President, First Republic bank

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-- *Steven L. Jager*, CPA, An Accountancy Corporation

About The Author

Harvey A. Goldstein, CPA, is the managing partner of the Southern California CPA firm Singer, Lewak, Greenbaum & Goldstein. He has been actively engaged in the practice of public accounting for more than 35 years.

Harvey was appointed by President Reagan to his National Productivity Advisory Committee and is a member of California's Small Business Development Board. He speaks to over 100 business groups annually and publishes several articles each year.

Harvey's philosophy of business (and life) is best exemplified by a small plaque adorning a corner of his desk. It reads "Good Things Come To Those Who Wait -- But Only The Things Left by Those Who Hustle."

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