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How Well Managed Companies Manage Their Business

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- Do you know what is happening to your business? Are you aware that you can be doing very well, but at the same time may be headed for financial trouble? This is why trend analysis is very important.
- Did your recent job quote really make you money? Was it the best one you could have made to achieve optimal profits? This is why pricing models exist.
- Do you know what your staff is doing, not by function, but if it makes you money? Did you know that one of the worst things you can do is fill too many orders or interview too many temps? You can determine what to do by using key ratios.
- Are you working at cross purposes with your staff? Do you have a compensation plan tied to results to retain top producers? A profit based compensation with the ability to earn equity for key personnel can do the job.
- You want to expand but are not sure if you could afford to? Are you aware that you can be growing but not gaining ground on your competition? Do you have enough money to grow and if that will translate into a good investment?
- How would you go about an acquisition? How would you value a prospect or even your own company? There are a series of steps to follow to do the job right.

Decision Making — Well run companies make optimal decisions to balance sales, finance and operational issues. The problem with our industry is that it is relatively new and growing rapidly, so that our focus has mainly been on sales. More mature industries have developed the tools required to insure profitability. This should be an area worth your attention, regardless of your size and current profit level.

Decision Making Tools — It is difficult to obtain and retain quality people. Experienced staffing industry personnel are difficult to find. It therefore becomes even more important to provide your staff tools and concepts that facilitate decision making. Some of these tools and concepts are described below.

Profitability As An Objective — Profitability should be the result of a company strategy. One does not make money by accident. Large corporations can wait out current losses and focus on market share. Staying in business requires making a sufficient profit to also grow and provide rewards for risk, effort and investment. Investment is mainly in the form of working capital. You can either generate these funds through profits or pay dearly for it by outside financing.

Information — Information can be obtained from analyzing performance based on standards and trends. Information is data that has meaning. Well run companies set budgets and compare against actual results. This information spots trends and offers options when a change in direction is warranted.

The Purpose of Planning — Planning does not mean that one can predict the future. It is a process to better understand your business. It allows you to evaluate your alternatives. This means being proactive, instead of reactive. Planning is a dynamic process that requires constant monitoring. In fact you can count on change being the only constant.

Pricing — How you price your services typically relates to the amount of business being bid on. The larger the job, the lower the price. The more you drop your prices, usually the less critical service and quality are. Relative growth, not absolute growth is what really matters. A company growing at 7% would be competing at a significant disadvantage with a loss of market share or profit in a marketplace with average growth of 16%.

Quantify — One of the keys in developing a successful organization is making people responsible for their activities and measuring results. More specifically, measuring and reporting in quantifiable terms of what, when, who, why or how much and how often. Although not everything can be measured, much can be described in qualitative terms. The more you quantify things, the easier it is to manage your business.

Accounting — You can make sense out of your business by using accrual accounting which matches billings with related costs. Variable costs such as temp pay, workers comp and payroll taxes generate margin $'s. Margin % is a good barometer for business and should be watched carefully for erosion. Fixed costs should be reflected as they relate to revenues. Thus, January tuition payment for the education of the staff should not distort the January P&L. Ideally it should be booked as a prepaid asset and charged out to the P&L during the year. Margin $ less fixed cost equals profit. Budgets should be set for all items. Actual results should then track against budget.

Economies of Scale — If you don't grow you will eventually go out of business due to economies of scale. This relates not to your growth, but to your performance relative to your competition. Small changes in costs may have a large impact on profit. Fixed costs tend to rise more slowly than sales and thus profit rises disproportionately with gains in volume. Certainly, whenever we spend money we should be satisfied that a favorable cost/benefit or risk/reward relationship exists. Return on investment should always be measured.

Accounts Receivable — Accounts receivable policies are another area ripe for economies, but rarely receive the attention they deserve. Providing credit is required in order to be competitive. Clients often use their supplier as their banker and you should therefore assess your credit policies. If you are your clients bank, act like one and make loans intelligently.

Operations — To run a business successfully you need to do more than the basics. You need to use state of the art monitoring and control systems. All well run companies monitor their performance. But monitoring performance without taking corrective action is a waste of time and money. Monitoring involves using financial and operational information that you most likely already possess, but may not have pulled together in a way that can be used. This can be done with a profitability algorithm. There are three basis types of measurements:

- **Productivity**, which is how hard you are working
- **Efficiency**, which is how smart you are working
- **Balance**, which is how well you are coordinating your activities

Set budgets or standards for these measurements. Feedback tells you how well you are doing. Tracking measures these variables over time to see trends, not just a snapshot.

Compensation — You should motivate your staff with a combination of competitive compensation and recognition. This process also lends itself to a tracking and ranking for both teams and individuals. Compensation should rise and fall with the fate of company fortunes, while still being competitive. A successful program should be tied to either margins or profit. Many companies use equity to retain key employees in addition to cash compensation. This is the "golden handcuffs" concept, as you want your staff to have something too good to give up. Some companies feel more comfortable with the use of "phantom stock", which does not carry the legal baggage of real stock. In addition to financial rewards and recognition, involvement in business decisions is another very valuable component. It helps employees feel part of the team and builds ego. The mix of these elements depends on individual needs and company desires.

High Finance and Building Wealth — If you are working in a short time frame, you may want to maximize the cash taken out of the business. If you are seeking an exit strategy and want to divest yourself of the business, look for ways to reduce costs, dress up the company for sale and restructure operations. If you are in for the long haul, plan to lock in management and build your equity through growth. A company's market value is a function of its size and stability. This is reflected in its price/earning ratio (P/E multiple).

Strategic Planning — Managing a company involves strategic thinking as there are always more options than money to fund them. The decision about which avenue to choose will involve financial projections. Projections will include:

- How much money is needed until you are profitable?
- How long it will take to get to this point?
- How much money you will eventually earn?
- What your return on investment will be?
- How much risk are you comfortable with?
- Do you want to grow or cash out?
- If you want to grow, is it better to do so internally, or through acquisition?

Acquisitions — What is the rationale for seeking a deal? That is, what will be gained vis. a vis. internal growth such as entering a new market, cost savings due to synergy or achieving a given sales level more rapidly. An acquisition program includes several steps including stating your objective, conducting a search, discover, valuation, deal structuring, tax consequences, due diligence, negotiations, employment and sales contracts, consummation of the deal, post acquisition absorption and audits.

General Management — Your objective should be to maximize the value of your company. One of the biggest challenges is balancing the various factions within your company. This is best done by being a generalist. That is, handling the competing interest of sales vs. accounting vs. operations, shareholders vs. employees vs. customers and business goals vs. personal goals. The key is that although policies are critical, be flexible and allow for exceptions. ■

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