



CSI – SME

Beating the Recession in a Small Business

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About the Author



MIKE PARRY is a serial optimist and small business owner. His *raison d'être* is helping organisations optimise their value, both social and economic. After a career in front line delivery in retail, food manufacturing and distribution and financial services, Mike realised his calling was working **on** businesses rather than working **in** business. During the mid-90's Mike joined BQC as a consultant after working with NatWest Life, MI Group, Bank of America, Nestles and Debenhams. In 2002 as CEO Mike led the restructuring of BQC to enable the birth of five small businesses working under the BQC Network umbrella. Over this period he has applied his skills to companies as diverse as Yell, Thales, Nokia, Whitbread, Irizar, BT, Balfour Beatty, Infineon, Dubai Properties and Corus. He has also supported a number of small businesses including GP Practices, specialist manufacturers, consultancies and professional partnerships. His work with the public sector has covered the UK, Ireland, Scandinavia and Singapore.

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Introduction

During recession we are bombarded by two types of media reaction

- **“the end of the world is nigh”**
- **“risk it all and win big”**

In reality, running a small business often feels like being the ball in one of the early computer tennis games, bouncing between these two “paddles” without ever fully embracing either view.

I end up unsure as to whether I am a self-deceiving profligate because I haven't retired to the fall-out shelter and battened down the hatches or Dorothy's cowardly lion because I haven't got the courage to push beyond my self-imposed limits

So this e-book is for all you **self-deceiving profligate uncourageous lions**

We too can beat the recession by taking control of how we bounce between the paddles.

My inspiration for this book comes from some of my favourite activities

- Watching the great Gil Grissom in “CSI” – Chapter 1
- Surfing and shopping for bargains – Chapter 2
- Playing “tug” with my Jack Russell Terrier – Chapter 3
- Identifying the bet that will secure my future – Chapter 4

I've also embraced another passion – collecting and restoring antiques – the ideas aren't new but hopefully by “sanding them down” and giving them a “varnish” I can reinvigorate them for a new audience.

Chapter 1. What would Grissom do?

Gil Grissom heads up a team of Crime Scene Investigators (CSI's) on the TV programme "CSI" (although as I write this e-book he has decided to resign!!). Apart from his interest in entomology he is known for his meticulous approach to collecting, analysing, sifting and identifying key evidence from the plethora of detritus left at the crime scene. It is this forensic approach to looking at your own business that I believe is a critical first stage in surviving the recession.

When we see the black clouds of recession on the horizon we are often panicked into cutting back on what we perceive to be our biggest spends. I would argue that these decisions are focused on short term survival rather than long term sustainability.

Why not treat the business as a potential crime scene and collect the evidence, identify the potential "killers" and take them out of the business before they commit murder.

Collecting the evidence

- ***List what you spend on a daily, weekly, monthly, quarterly, annual basis.*** Regular payments can often pass us by because they are automatically withdrawn from our accounts. We can also assume that there is no alternative to paying for the "fundamentals" so don't consider them as part of the cost management process.
- ***Track what you spend on an ad hoc basis.*** We'll know what we have spent on the latest bit of hardware, or the recent conference because they were big hits on the business. We often forget to consider the small purchases from petty cash, or the consumables we bought on our credit card.
- ***Look at the detail in the expenses.*** If you have expense accounts or you and your employees claim expenses track the detail. Not to castigate their spending habits (although you may want to do this for different reasons) but to look for trends of spend that make a significant contribution to your outgoings.
- ***Build up an overall picture of spend and the reasons for the spend.*** Don't just list the spend, but by each line of spend provide a reason for the spend.

Identifying the potential “killers”

As Gil often says “...the dead talk to me”. Like “the dead” historical spend cannot be “resurrected” but it can tell you a story. We need to listen to “the story” and like Gil we need to put it in context for our business.

We need to consider the impact the spend has on our key success factors. Whilst each business may have different success factors, experience suggests a generic set would include:

- We need to produce our products
- We need to service our customers
- We need to retain our core skills
- We need to protect our brand/reputation
- We need to develop our business for the future

Using these five simple success factors we can build a **contribution matrix** for each of the expenses.

Ask the questions

- 1. Does this expenditure contribute to our achievement of our success factors?***
- 2. To what extent does it contribute?***
- 3. How big is the risk to our success factors if we spend less on this?***

When we understand which of the expenses have least impact on our critical success factors we can ask ourselves whether the risk avoidance is worth the expense. If not, we have identified the potential “killers” for our business. As with Gil Grissom we need to be ruthless in “bringing them to justice”, the main difference is we need to do it before the crime has been committed!!

CONTRIBUTION MATRIX	% Total Cost	Impact	Risk	Risk*Impact
Cost Line				
Payroll	30%	4	3	12
Professional Fees	20%	3	2	6
Motor Expense	12%	2	3	6
Travel and Subsistence	12%	2	2	4
Printing	9%	3	3	9
Insurance	2%	3	3	9
Telephone	5%	3	4	12
Office Supplies	3%	1	1	1
Outside Services	7%	1	2	2
Impact on CSF's: 1=low, 2=medium, 3=high, 4=critical				
Risk of Reduced spend: 1= low, 2=medium, 3=high, 4=critical				

(In the example above we would choose to look at “professional fees”, “travel and subsistence” and “outside services” because they are a high spend and comparatively low impact/risk as opposed to “payroll” which, although a bigger spend is higher impact/risk)

Chapter 2. Bagging the bargains

It's likely that most of the expenses won't fall into the "killer" category. ***They may not be "killers", but they can certainly cause "grievous bodily harm" (GBH) to a small business in recessionary times.*** We need a strategy for dealing with these.

I adopt the same strategy I do when I'm looking for bargains in my private life:

- ***What can I get for free?***
- ***How can I get it cheaper?***
- ***How can I share the cost?***
- ***What incentives can I get to achieve better value?***

Applying the same strategy in the business can reduce the GBH to "common assault".

- ***What can I get for free? A little research can go a long way.***
 - *The internet offers great opportunities for getting free services (e.g. free banking [www.anbusiness.com], using VOIP [www.skype.com], blogging [www.wordpress.com] firewall and antivirus software)*
 - *Look for new entrants in the supplier markets - you can sometimes negotiate free products or services in return for being a reference site*
- ***How can I get it cheaper? There are almost certainly other small businesses in your locality. Look for synergies in your purchases. Work together to get better prices from your suppliers in return for bigger order quantities. We were able to negotiate between 10% and 15% off heating oil costs by a number of us ordering at the same time***
- ***How can I share the cost? Our suppliers are going through the same recession fears as us. Talk to them about it. There will be opportunities for innovative deals e.g.***
 - *"Payment in kind" – an Accountant friend is offering bookkeeping services to her printer in return for her business stationery.*
 - *"Sharing pain and gain" – a specialist manufacturer and his key raw material supplier have an "open-book" agreement enabling part*

payment on the delivery of the raw materials with balance plus agreed %ge of sales revenue paid on sale of finished product.

- *“Referrals” – a local business consultancy gets preferential rates on conference facilities from a small country hotel by referring new clients to the hotel*
- ***What incentives can I get to achieve better value?*** *Whilst some suppliers may shy away from innovative relationships, we should negotiate deals which offer us better value.*
 - *Discounted invoices for early payment*
 - *Extras thrown in as part of the core cost e.g. extended warranty included within hardware costs, refreshments included in the conference room cost, tax investigation insurance included in accountancy costs.*

By applying these strategies you can lessen the pain on the “must spend” items. I’ve not tried to produce exhaustive lists here I’m sure that others can provide excellent methods and examples of “bagging the bargain”. If you feel like sharing them, (and why wouldn’t you?), send them to me at mike@bqc-network.com and I will credit you as the source in subsequent updates of the eBook.

We know that cashflow is the lifeblood of any small business. Chapters 1 and 2 have focused on keeping the money in the business. The next two chapters focus on getting money into the business.

Chapter 3. Bring in Toby

Toby is my Jack Russell Terrier. Most of the time he sleeps...but give him something to get his teeth into and you'll struggle to get it back. His tenacity inspires me when I consider the other side of my business – getting money in.

Like most small business owners my focus is always looking for that next contract. Invariably I've spent less time on making sure I get paid promptly for the business I've already done. Even when I do get down to chasing payments I'm often

- Embarrassed
- Scared of upsetting a client who potentially has more business for me
- Very understanding of the difficulties my customers face
- Extremely annoyed with myself when I realise I've failed to get the money in again!!

I'm not suggesting that the majority of small business owners have the same aversions I have, but my experience suggests there are enough of you out there to make this a worthwhile chapter.

For those fellow owners who recognise themselves, it's time we adopted the Jack Russell rallying cry "...get your teeth in and hold on for dear life!"

Some basic guidelines:

1. ***Make your payment terms and conditions clear up front.*** Don't rely on the client reading them. You want to be sure they understand them, clarify any differences they may have and make sure they are resolved before you deliver the product/service.
2. ***Offer discounts for early payments.*** Make it worth their while to pay you early (even British Gas are now offering incentives for early payment to their domestic customers). This can often get you up the "payment priority ladder" operated by some organisations.
3. ***Make it easy for them to pay you.*** Offer alternative payment options (e.g. internet banking, cheque, credit card, paypal). Make sure you know which they are likely to use and offer discounts for those methods that are cheaper/easier for you.
4. ***Be clear but fair about the consequences of late payment.*** The carrot for early payment works best when there is a stick for late payment. Make

sure the stick is both appropriate and proportionate. Make sure it's not an idle threat.

- 5. Understand your customer's payment process.** *Make it your job to get information on payment run dates, required documentation, sign off procedures etc. Then make sure you take account of these in your own invoicing processes.*
- 6. Build relationships with the customer's payment team.** *A direct line almost always helps to short circuit the resolution of problems. It's also good to give some recognition to "backroom staff" who probably only get hassle from suppliers. Also get to know them on a personal basis and remember to ask say how a sick child is getting on next time you call (they will work harder to get a payment through for a friend than that of just a supplier)*
- 7. Be efficient in following up.** *Diarise some time to make follow up calls on due payments. You probably already do this when following up prospective leads! One interesting approach used by a member of our consultancy network is to make a call just before the cut off date for the print run to make sure his payment is included.*
- 8. Have a strategy for debts that are at risk of going bad.** *Knowing when enough is enough is a critical part of survival for a small business. Make sure you have an exit strategy and fully understand the consequences of adopting the exit strategy.*

I'm sure there are small businesses out there who are experts in getting their money in. I've found these guidelines have significantly improved my success rate. If you can suggest anything else that may help let me know on mike@bqc-network.com and I'll add it to the next version and provide a link to your web page in return for your idea.

Chapter 4. Finding the “golden” bets

A lot of the focus to date has been on bouncing away from “**the end is nigh**” scenario. It’s time now to consider bouncing towards the “**risk all and win big**” paddle.

To not only beat the recession but to inflict serious harm on it ***we mustn’t go into hibernation – we must open our minds to new opportunities***

If I could tell you with absolute certainty where these golden bets will be I would be writing this e-book from the beach outside my villa in the Seychelles. Maybe I am!!

What I can say is here are some of the bets I’ll be laying:

- **Social Networking.** The success of the social networks must provide new opportunities for business. Using the variety of networks to get direct access to customers and other stakeholders could make a big difference for little cost. Celebrities are certainly using “social media” to get direct access to fans, by-passing the press (e.g. Steven Fry on Twitter).

For forward looking businesses “social media” have become the internet versions of the “business cocktail party”. People meet, start conversations, question each other, and understand each other (likes, dislikes needs), give each other feedback etc. It’s worth noting, however, you must be ready to handle the feedback you get. If all you do is become defensive when you don’t like the feedback then like people at a cocktail party they will begin to look over your shoulder and move on to another conversation (or “unfollow/ unfriend” in social media terms).

The key to using social media as a business marketing tool is to use it to build relationships before you start selling to people. It’s the age old wisdom, “turn a stranger into a friend and then a friend into a customer”. What you need to be clear about when you start to use the internet is not how you use it but how your target audience uses it. They probably don’t just surf around and come across your website they will be using recommendations from their network of contacts via sites such as Digg or Stumbleupon. You need to understand where your customers “hang out” (e.g. Facebook?, Twitter?) You need to virtual network like mad (e.g. using LinkedIn, Plaxo etc.)

It’s a whole new world which is tagged as Web 2.0. If you get on with it now you might just reap the benefits before Web 3.0 comes along whatever that may be!

- **“Productise” Knowledge.** Small business owners are often specialists in fields they have a passion about. Over many years they will have built up a knowledgebase and experience about their subject. Why not use the low entry costs of the internet to raise your profile by sharing that knowledge and expertise. The BQC Network consultancies are working on e-books, blogs, and video downloads to give away, to try and raise and reinforce our reputation in a number of key business areas.
- **Partnering.** Small businesses are often not great at recognising how they can add value by partnering with other small businesses to provide complete solutions. We are currently looking at opportunities to extend our network to bring in like -minded partners who can offer complementary products and services. This can expand the potential customer base as well as offering current customers a more cost effective sourcing process.
- **Research and Rebrand.** Like a lot of small businesses I know, we have often milked our cash cows for all their worth whilst we focus our development time on the next “new thing”. This time we are spending our development time on listening to where the noises are coming from, refining and rebranding our cash cows to address these changing noises. A lot less cost in development and the advantage of a product/service which we have proved works.

These are a few of my “golden bets”; again I am sure there are many ideas out there in the ether. If you want to share your ideas let me know and again I will credit you with a link to your own site.

Get back to me with your thoughts mike@bqc-network.com