Entrepreneur

How to Build a Lean, Mean, Money-Making Machine

25 strategies to make 2012 work for you. Here's how to get started on your path to ultimate success.

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URL: http://www.entrepreneurmag.co.za/advice/business-leadership/strategy/how-to-build-a-lean-mean-money-making-machine-25-strategies-to-make-2012-work-for-you/

It's easy to be successful when times are good. But if the first few years of the 21st century have taught us anything, it's that the good times don't last — and it's critical to know how to deal with the bad as well as the good. Lean, mean and efficient companies that were willing (and able) to adapt when the recession hit survived the downturn.

Some even prospered. After all, one man's recession is another man's windfall, provided he knows how to capitalise on an opportunity. But, while many business owners admit that the last few years forced them to improve their business systems and foster a customer-centric approach, no-one was sorry to see the back of the recession. Or rather what they thought was the back of the recession.

If you breathed a sigh of relief, it's possible you relaxed too early. Economists around the world are predicting a double dip, and while it's unclear at this stage what the impact will be on the South African business landscape, it's always better to be prepared, particularly because preparing for a downturn is actually no different from following good business principles.

We spoke to ten local experts about what it takes to launch, run and grow a sustainable business that will prosper in good times and bad. Here's what they had to say about what you should be focusing on in 2012.

Businesses are living, breathing entities made up of hundreds, if not thousands, of moving parts. We have focused on four core areas that together make up a company: The company's leadership, in other words the business owner or management structure; the employees of the company; its operational structure; and the marketplace, the buyers of the company's products or services.

These four areas overlap at any number of touch points, but without focusing on all four, a business cannot grow.

Leadership: For the love of the game

Creating and sustaining a successful business is tough. It takes perseverance, dedication, resourcefulness and passion, not to mention a product or service that the market wants and is willing to pay for. As the leader of your business, much rests on your shoulders. Here are some ideas to apply to your role in your business.

1. Be passionate

Don’t be fooled. Entrepreneurship is a hard and lonely road. If you aren’t passionate about what you are doing, you won’t succeed. Just look at Steve Jobs, who famously said: “I was worth over $1 million when I was 23, and over $10 million when I was 24, and over $100 million when I was 25, and it wasn’t that important because I never did it for the money.”

Yes, money is important, but if you’re an entrepreneur for the money, chances are you won’t reach where you want to go. Passion is vital. Ask yourself why you are doing what you’re doing, and if the passion isn’t there, either find it by changing what you’re doing, or accept that entrepreneurship might not be for you.

2. Be a leader

Don’t get bogged down by the little details. According to Bertie du Plessis, you should spend no more than 50% of your time on the operational aspects of your business, and at least 50% on strategy, which is basically just thinking about ways to improve your business. “You have employees to take care of the operational aspects of your business,” he says. “It’s your job to work on where your business is going, and how you’re going to get there.”

3. Don’t panic

Panic leads to emotional decisions that you could end up regretting. “Knee-jerk reactions can make business owners cut costs in areas they should be growing, not minimising,” says Denvor Phokaners. “As an entrepreneur you are more likely than not heavily invested in your business, not only in assets, but emotionally as well. You need to approach your business with a clear head though, particularly when times are tough.”

Nathalie Schooling has a slightly different take. She says you should ‘panic slowly’. “It’s okay to be concerned about a situation,” she says. “Just make sure that concern does not degenerate into flat-out panic that leads to poor decisions.

Take note of your concerns and carefully develop plans to address them. You’ll be amazed how many apparent worries can actually be transformed into new and exciting opportunities if you take the time to address them slowly and with a level head.”

Strategy vs operations

Confused about the difference between strategy and operations? Here’s how Bertie Du Plessis explains it.

There are three indispensable features of efficiency and optimisation that you need to execute if you want to remain in business:

1. You need to deliver quality
2. You need to remain close to your customers
3. You need to benchmark to assure that you don’t fall behind your competitors.

Hard core strategy takes the opposite tack. Hard core strategy asks “What if?” questions:

- What if my quality is too good? What if there is a low quality competitor waiting to wipe me out?
- What if I am too close to my customers and have become blind to what newcomers to the market want?
- What if my benchmarking lets me improve, but in the process I destroy my differentiation in the industry?

Hard core strategy questions the assumptions of everyday business efficiency.

4. You can never know too much

Many entrepreneurs start a business based on a particular technical skill. They have been in an industry for many years and have decided to 'go it alone'. While understanding your industry, market and customer base is incredibly important, business acumen and technical skill are two very different things.

> *"An entrepreneur who cannot recognise where their skills gaps are cannot fill those gaps, and ultimately the business will suffer because of it," says Shawn Theunissen. This can be done in one of two ways. Savvy entrepreneurs can hire people whose skills lie in areas they lack, or they can upskill themselves and seek coaching and mentorship. "This is easier said than done," admits Theunissen. "It's difficult to evaluate yourself. We've worked with entrepreneurs who are open and willing to learn, and others who refused to believe they didn't already know it all. What we have experienced though is that it's the teachable entrepreneurs who are willing to learn and ask for help whose businesses are really experiencing growth."*

5. Flexibility and adaptability are key

Without the ability to adapt and be flexible to what the market wants and needs, a competitor could literally sweep you off your feet. "Understand how the business landscape looks around you," says Du Plessis. "If you can't adapt, you're stagnant, and that will eventually lead to a slow death. Customers expect you to offer them value, and that requires giving them what they need, not only what you currently have to offer." Adaptability is first and foremost a mindset. You must be willing to be flexible in your offering.

6. Avoid ego-based decisions

"This is not the time to spend on things that make you feel good about yourself," says Allon Raiz. "Yes, luxuries do make us feel better when times are tough, but spending on frills is never a sound business decision. If it's not going to boost sales, don't spend the money. That goes for everything from signage or the gloss on your business cards to the car you drive and the entertainment of clients." Raiz is a firm believer that clients don't expect to be wined and dined — they just want you to do the job well and give them value for their money.

Employees: Staffing solutions

You cannot run a successful and growing business by yourself. Period. "An entrepreneur's partner and the first two or three members of the company will ultimately determine that business's success," says Justin Spratt. "On the whole, entrepreneurs have an over-inflated sense of self. That's okay — it's what makes them entrepreneurs, and it's a character trait they need when battling against the odds to get their companies off the ground amidst all the challenges that start-ups face. But it's the most self-aware entrepreneurs who are able to recognise their gaps and hire great employees to help them that are truly successful."

7. Hire for the right stage

Evaluate what stage your business is in and who you need to take it forward. “The stage of your business determines the skills it needs,” says Spratt. “Look carefully at what you are missing and then start sourcing the right person to fill that role.”

8. Engage with your staff

Even when times are good, it’s valuable to motivate your employees and build a loyal staff complement. It might sound clichéd to say that your staff is your greatest asset, but the cliché exists for a reason. Good employees can make a valuable impact on the success of your business.

> *“Whether times are tough or going really well, as a leader you need to support your staff,” says Shawn Theunissen. “In good times this means engendering loyalty so that your best employees aren’t lured away by better packages. In tough times you want your employees to stick it out with you, and that takes loyalty as well. You might need to even cut hours or salaries. If you are open and honest with your employees, and they feel you truly have their best interests at heart, they will not only accept these measures, they will support you. They will understand that when the situation gets better they will be rewarded for their loyalty. Great teams can achieve great things, but it’s important that your employees feel like they are part of a team, and that has to come from you.”*

9. Inspire your troops

> *“You need to inspire your troops to fight for you,” says Pavlo Phitidis. “Create an environment that allows (and rewards) people for putting in extra effort. They must get meaning out of their work, and that starts with you. It’s important to keep your employees abreast of everything that’s happening — in the business, the economy and even globally. Don’t let nasty shocks creep in, rather be open and transparent. You’ll be surprised at how much people can handle when they are entrusted with the truth.”*

The Business: Your asset of value

Earlier we discussed the fact that entrepreneurs need to be leaders, and leaders should spend 50% of their time on strategy. While this is true — and vital to the growth of an organisation — it should not detract from the importance of operational issues. If a business isn’t operationally efficient, it cannot be an asset of value, and according to Pavlo Phitidis the purpose of an entrepreneur is to build an asset of value. This requires strategic planning as well as strong operational systems.

10. Be organised

Be realistic about what your business can achieve and the amount of customers you can manage, and put systems in place to do just that. If there is a system for everything, you will always know exactly where your business is, and you will be able to realistically scale the business when the time comes to grow.

“Every business can only handle so many customers,” says Phitidis. “If you stretch yourself too thin you will not be delivering a good service. Rather be realistic about what you can achieve and deliver a good service. This will ensure you maintain clients, which in turn will allow you to grow when the time is right. If you are organised, you will also know exactly what is needed to facilitate that growth.”

Shawn Theunissen also recommends having a development map. “It’s important from a business continuity perspective to evaluate where you are and where you are going on a continuous basis. If you are constantly updating your development map, you will not only be extremely familiar with your business’s operations, but you’ll be aware of any threats or opportunities in your space.”

11. Cash is king

The importance of strong financial management and cash flow cannot be overstated. If you don’t know what is happening with your books, and you don’t have money in the bank, chances are your business isn’t performing as well as it should. “Whatever the size of your business, don’t be intimidated by your accounts,” says Justin Spratt. “As a start-up, your main concern should be cash first. Know exactly what is coming into your account and what is going out. As your business grows and things become more complicated you can flesh out a financial model that works for you, but the core will always remain the same: what is the state of your business’s cash flow?”

12. Drive down costs

You can bring down costs in a number of ways, but the first place to start is by asking the question: Is this adding value to my customers? “The simple truth is that anything that isn’t adding value for your customers is eventually costing your business money,” explains Nathalie Schooling.

However, you need to be careful that you are only cutting costs where you can. “Beware of reactionary tactics that cut back on your means of production,” says Allon Raiz. “When the recession turns you will find yourself in a vulnerable position without the resources in place to take advantage of the upswing. Instead, you need to be more aggressive in your sales, marketing and drive to acquire new profitable business.”

13. Invest in your productive costs

Evaluate your business model and determine where your unproductive costs lie. If something is unproductive, eliminate it, then take those savings and invest them into productive costs. “The net effect of the cost savings should be zero, but change the balance of your spending in your business,” says Raiz. “Do not use the cost savings to pay off debt.

Rather invest in making more sales and then the income you make from that will keep your staff and repay outstanding debt.”

14. Focus on return on investment

The two areas that are threatened during a recession are price and volume. “If the one drops, you need to increase the other,” explains Graham Geldenhuis. “In other words, you can protect volume by offering good pricing. If both are under pressure, you need to reduce your costs. Just make sure that based on which area comes under pressure, put your energy into the factor that can mitigate the risk.”

Ultimately, you want to find and secure predictability. This might mean finding a market that makes less in the good months, but has more predictable cycles. “You need to determine what the risks are that are out of your control, and eliminate them,” says Geldenhuis.

15. Evaluate your risk

Different times present different risks. You need to continuously evaluate where your risks lie. If you can’t recognise them, you can’t mitigate them. Careful evaluation also allows you to deal with them. For example, one of the biggest challenges entrepreneurs face during tough times is whether or not to offer extended credit terms to customers who are struggling to pay.

“Do you let Jack go because he can’t pay you, or do you shoulder some risk to establish a lasting relationship when he is back on his feet?” asks Phitidis. The answer to this question lies in the state of your own business, whether you can afford to let Jack pay later, and how much risk you can tolerate. “Assisting Jack now could lead to a long-lasting relationship in the future,” says Phitidis, “But it’s important to draw up firm contracts if you choose to do so.

> *“You will essentially be moving from a cash relationship into a debt relationship. You need to agree on the terms of this new relationship, formalise it and then actively manage it. If the agreement is infringed upon, terminate credit and return to the previous system. There is a difference between assisting your clients and working together and being taken advantage of. You have a business to run. Always remember that.”*

16. Rethink your business model

Wherever you can, rethink your business model — even at the expense of thinner margins. “You need to be flexible and able to react quickly,” says Phitidis. “Don’t be the slave of your suppliers because you rely on them to deliver a service or product yourself. You are still their customer as well. If they are slack, find new suppliers.

Negotiate with them for good terms, and most importantly, keep your options open. You need to be able to react quickly to service your own clients. If your suppliers can’t assist you in this, they are not adding value.”

You also need to make the decision that nothing is sacred in your business. “Be absolutely ruthless in killing off your most precious service or product if the need arises,” says Bertie du Plessis. “If you could totally disrupt your industry, what would you do? Even more important, what would disrupt your industry?”

17. Staple yourself to your process

Evaluate every step of your supply chain and challenge your processes. “You need to be constantly evaluating your touch points,” says Vanessa Bluen. “What are the experiences of your stakeholders? How do your employees interact with your business? What do your customers think about you? All these perceptions go back to how your business is run. Are you getting the right message across? Are you efficient? As long as you are evaluating your processes, you are able to adjust them where necessary.”

Manage costs judiciously

Here are a few areas where you can address costs (and possibly bring them down):

- **Outsource where you can**

“Paying invoices instead of salaries means you are only paying for skills and services as and when you need them,” says Denvor Phokaners. “Getting the basics right is key, but you also need those basics to be flexible enough to be adapted when times are tough,” advises Schooling. “The business that masters the art of outsourcing is better positioned to adapt to a changing economic climate than the one that upstaffs when times are good and ends up with massive overheads and staff responsibilities to cover when things go south.”

If you do choose to go the outsourcing route however, it is very important to find partners and suppliers who share your values, passion and service commitment.

- **Negotiate with your suppliers**

“The key element here is that ‘he who is proactive will win the race’,” says Phitidis. “Start planning for the future now. If you think the economy might dip, talk to your suppliers before it does. Fight for good credit terms and negotiate aggressively for discounts on cash payments. It’s in everyone’s best interests to continue to do business together. By speaking to your suppliers openly and early on, you can both plan ahead. For example, they might be more than willing to give you good terms as long as you continue giving them business. Storms are weathered together.”

He warns, however, that businesses should have good financial discipline before they consider asking for extended credit terms. “This should not be a means to spend more.”

- **Partner with your clients**

Your clients are more than likely to be dealing with the same issues as you: they are also exposed to risk and they need to cut costs. You can actually help each other. One way of doing this is through retainers if you are a service-based business, or extended contracts if you supply products.

“The cost of selling is expensive and often unpredictable,” says Graham Geldenhuis. “Think of the old adage ‘a bird in the hand is better than two in the bush’. Retainers aren’t always sexy, and they usually aren’t the big money-spinning contracts, but they do provide stability, and they aren’t costing you money. Chasing sales can be expensive, both in time and resources, and then the deal is still not certain. Tell your clients you will reduce your costs and therefore your profits if they agree to a retainer or extended contract. Long-term it might actually save you money, and it definitely gives you stability.”

The Market: Matching your market

So, you have a business, employees and a well run structure. But none of this means anything if you don’t have a market: someone to buy your product. Without customers there is no business. And here is the tricky part, because you not only need something to sell — whether that’s a product or a service — you need to sell something that people want to buy, you need to be communicating your message with them, and you need to keep them coming back for more. One sale does not guarantee a repeat sale.

18. Have the ability to identify an opportunity

Some markets already exist, others are just waiting to be created, but a true entrepreneur will be able to identify a gap waiting to be filled. “The ability to recognise and assess an opportunity is very different from creating a product or offering a service and assuming because you have it, they will buy from you,” says Shawn Theunissen. “You need to understand your target market. What is the burning need in that market, and how will you fill it?” In order to answer those questions, it’s vital you understand your market.

“You essentially need to become a diagnostician,” explains Vanessa Bluen. “Traditionally, we go into a market with the product or service that we have to offer, and we ask just enough questions of potential clients to be able to match our offering to their needs or business.

Sometimes it’s a pretty tenuous connection. Imagine if you approached this from another angle and you investigated the market’s needs and problems, the motivations behind those problems and developed ways that you could solve those problems. Instead of selling your product or service, you will have identified a real need, and undertaken to solve it."

19. Don't be everything to everybody

According to Ivan Maroke, it's as important knowing who you are not targeting as it is knowing who you are targeting. "Rather know exactly who you are, what you are offering and who you are offering it to, even if that means a smaller market, than trying to appeal to everyone," he says. "If you try to be too much, you will lose your value proposition, and you might end up with no clients." Understanding who you are requires you to know your brand truth. You need to have something worth selling, you need to believe in what you are selling, and you need a clear picture of what your brand stands for.

20. Speak to your customers

Never be afraid of speaking openly with your customers. "If you want to add real value for your customers, you need to understand what they perceive as value, and that can only be learnt through speaking to them and asking them what they want and need," says Pavlo Phitidis. You can ask them what they specifically expect from you, but you should also ask them more general questions. "You need to understand the critical factors affecting your clients and their industries," says Bluen.

> *"Stop selling your plan and start finding out what is valuable for them. Ask questions like: what are you using the product or service for? What is important to you? What is the industry doing? You can then start developing solutions for your clients. Some of these solutions might not even involve your product or service, but you are making yourself valuable to them — and that will eventually lead to a strong relationship with sales as well. When you leave, your client should think, 'This was the best hour I have spent today' because they received so much value from you."*

21. Differentiate yourself

"It's easy to differentiate when you have a unique offering, but what about if you're in a highly competitive market?" asks Theunissen. "Identify what elements are important to the client and focus on them. If you have a service-based business, chances are your differentiator will be service, and therefore your staff. Find something that makes you different, and focus on that."

"It cannot be overstated how important it is to focus on what makes your business special," says Allon Raiz. "You need to spend a disproportionate amount of time on building up your value proposition. Leverage the distinctive value that you have to offer and invest in it, market it, sell it and grow it."

22. Look after your existing customers

"We've all heard the statistics about it costing much more to find new customers than to keep the ones you have," says Nathalie Schooling. "Unfortunately, few businesses seem to take this to heart, and they become so focused on winning new business that their existing, loyal customers are often ignored, and sometimes completely neglected. To me, that's a formula for disaster. But it's easy to reverse. By investing the time, effort and resources in showing your existing customers that you value them, you strengthen and build the foundation on which your business success has been built so far."

This doesn’t mean you should forsake new clients though. “You need to focus on growth, even during tough times,” says Allon Raiz. “This might feel like you are running on the spot, but often that also means you are not moving backwards. When the economy picks up, you will have a head start.” It is also dangerous to forget to look for new clients while looking after the old. If you lose a few key contracts you could end up in serious trouble.

23. Customer service comes first

Whatever happens, look after your customers first and foremost. “It’s important to remember that your customers are experiencing the same economic conditions as you,” says Schooling. “If you are under financial pressure, chances are that they are too. However, that doesn’t mean they are just going to run off and find a cheaper competitor. Most businesses are looking for value when times are hard, so focus on giving them what they are after.”

24. Sales vs marketing

Understand the difference between sales and marketing. “Marketing gets leads through the door. Turning those leads into actual customers is where sales come in,” explains Phitidis. “Customers will always have some form of perception about your company and what you do. At the very least you need to do what’s expected of you. Ideally, you need to do a lot more.

“To really deliver — and close those deals — you need to understand the difference between sales and marketing. Measure the disconnect between leads and the successful conversation of leads to customers. If you have enough leads but are not making enough sales, the problem is in the selling, not the marketing. If you aren’t getting enough leads, you need to focus more on your marketing. How are you getting yourself out there?”

25. Focus on niche areas

“If you don’t find your niche, you will never market yourself successfully,” says Phitidis. “Finding your niche isn’t only about providing a unique product or service, but packaging it in a unique way.”

Geldenhuis recommends looking at areas that bigger players find difficult to operate within, particularly when customers start looking for added value. “Either find a space where there isn’t a lot of competition, or look for areas where your particular offering will excel.”

For Du Plessis, it’s all about narrowing your focus rather than adding more. “A ‘me too’ mentality is certain death. Different is always better, and often that means focusing your energy and attention, not extending it.”