



Ten Barriers to Wealth Creation: Overcoming Small Business Resource Constraints & Failure Points

History has proven that difficult economic environments can and often do produce wealth creation organizations when business models take full advantage of opportunities at the expense of their ineffective competitors and substitutes.

In our "New Economy" the opportunities to sustain and create wealth revolve around altering and changing business strategies, business models, and management science to overcome, not only the exogenous barriers to success, but internal blockers as well.

Over the past eight years Ephor Group has worked with literally hundreds of small businesses to overcome barriers. This document identifies the most common barriers and *provides guidance and processes to create a roadmap for near and long-term success.*

Ten Barriers To Wealth Creation

1) Failure to Define the "Happy Endings"¹. >> As the famous quote says, "*Hope is Not a Strategy.*" Knowing precisely where the organization is headed, how it is going to get there, and more importantly having all employees from managers down to the front-line employees "rowing in the same direction" is a key success attribute of enterprises that create wealth.

More specifically, defining the major milestones and necessary accomplishments of the business plan and financial model is critical such that all employees know the extent of the progress (or lack thereof) and whether they should "row harder" or celebrate.

2) Constituency Alignment² >> Numerous research studies, and Ephor's experience have proven that greater than 70% of management initiatives fail to achieve their targets because of poor process implementation including failure to achieve constituency alignment at the board, management, employee, and partner levels.

Ephor Group's Definition of "Wealth Creation"

In Ephor Group parlance: "*Wealth Creation*" occurs when the potential of the market opportunity is realized for the stakeholders...

...resulting in enterprise valuations that are "Best of Breed".

*"Failing to define your
Happy Ending and
simply existing is
giving up on the
American Dream."*

-Garry Meier

¹ "Happy Endings" are the desired outcomes of the business and include, but are not limited to, how much money or wealth is created, the legacy of the business and management team, the succession plan, as well as the position in the community or market.

² Constituency Alignment is the agreement on the goals, activities, behaviors, culture and desired outcomes of the organization and the process for achieving these outcomes.





It very common for executives to become frustrated with their teams' effectiveness and performance. Experience tells us that the majority of the time it is due to a lack of alignment. Effective team alignment requires:

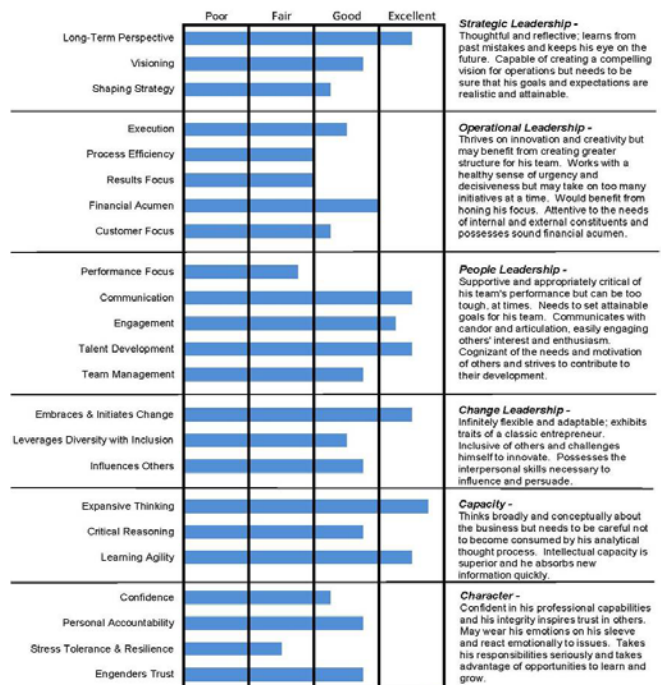
1. Empowered Decision Making > Remove bureaucratic protocols/barriers and incent employees to drive efficiency, innovation, and continual improvement.
2. Consistent Pace > *How fast is everyone working? How quickly do we want to scale and grow?* Overworking employees often negates long-term employee satisfaction and retention; conversely, failure to make measurable progress will de-motivate employees. Therefore executives must create the appropriate organizational balance.
3. Employee Led Initiatives > Key employees leading continuing improvement, innovation, and exploratory projects is a requirement for today's agile and change oriented business.
4. Communications Rhythms> critical to assessing progress and initiate healthy debate; Debate and open discussion are crucial to avoiding "Path of Least Resistance" behavior.

"Alignment is the essence of leadership."
-Garry Meier

3) Hazy TARGETING³ >> Increasing the probability of success is dependent upon highly defined goal setting, supported by layers of KPIs (Key Performance Indicators) including measurement and metrics systems. Major milestones must be monitored and managed to bring clarity to the outcomes and results. TARGETING impacts every facet of an organization; here are just a few examples of "Hazy Targeting":

A new employee is hired to a hazy job profile meaning that a clear definition of success (i.e. *Is the new employee an 'A', 'B', or 'C' Player?*) is unknown to the employee.

The result is almost always poor performance.



³ "TARGETING" is the process of aligning a group to a defined set of attributes.



Marketing is focused on branding and nurturing multiple market segments; while the sales personnel are focused on meeting monthly/quarterly targets and the result is frustration and excuses.

Compare and contract to focusing the entire team on those prospects with the highest Net Lifetime Value (NLTV⁴) to the organization.

“Star Performers” in an organization are under the impression that they will be rewarded based on the activities and performance rewards that were given historically.

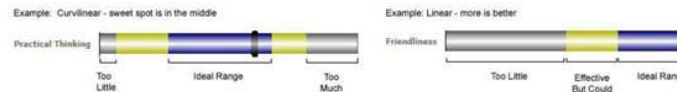
But what about continuous improvement?

What about innovation?

What about the need to respond to changing competitive and economic conditions?

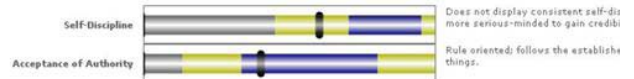
Defining a set of attributes and behaviors for employees to strive for and benchmark themselves against ensures that progress is made against the defined targets. “Star Performers” want to know what they should focus on and how they will be rewarded. It gives them the pride and energy to evaluate themselves and lead the other employees.

OpportunityName:	Value	Score
Company:		0
DEMOGRAPHICS & FIRMAGRAPHS		
Meeting Scheduled		
Location		
Title: C-level or Senior VP	10	
EVALUATION PROCESS & TIMEFRAME		
Formal evaluations in process (list indicators), decision in < 30 days	25	
Informal evaluations now (list indicators), decision in X months	12	
Early stages of evaluations - decision in X months	10	
BUYING STAGE		
=> \$X M or X Employees:		
> \$X M Budget approved by Corp/Parent/Highest level (in formal eval)	20	
> \$X M Budget approved locally, needs higher level approval (in formal eval)	15	
> \$X M Budget to be set for selected system (informal eval or less)	10	
\$X - \$X M or startup with \$X - \$X M preliminary budget number	6	
< \$X M with lower or unknown budget	2	
BUSINESS CASE		
ROI		
TCO		
Risk		
Capabilities		
INTEREST LEVEL (services/product buying indicators)		
Research		
Evaluation & Selection	?	
RFP	?	
Documented Need/Pain	10	
Documented Product information	10	
NETLIFETIME VALUE		
Referral (unspecified, other industry contact)	14	
Referral (client-current/former)	15	
Referral (employee-current/former)	15	
Prior brand awareness	12	
Completed & Sent Info Request form or survey from Web Site	10	
Campaign Response	5	
DISQUALIFIER(s):		
Location		
Size		
Industry		
TBD		



Personal Leadership

Acts with Character and Integrity



Leadership Integrity



Potential For Success	Value Deductor 0-30	Value Maintainer 31-69	Value
Potential For Success <i>This candidate has the basic capabilities and traits to perform effectively in the position.</i>	57		

Core Competency Scores	Value Deductor 0-30	Value Maintainer 31-69	Value
Reasoning <i>Has the basic capacity for understanding information and solving problems, but tends to need additional time to come up to speed and grasp new concepts.</i>	48		
Decision Making <i>Consistently applies a disciplined and detailed approach to analysis and planning.</i>	59		

⁴ Net Lifetime Value (NLTV) is the total value of a customer; i.e. all the revenues over the life of a customer both directly and indirectly.



4) Micromanagement >> Every employee needs space to develop. Micromanagement hinders employee growth (*and has a severe impact on morale*) and is a major barrier to business process development, and creating scalability in the business.

Did you know that the average B2B services-based small business has one (1) manager for every six (6) employees?

The most successful organizations that maximize the market opportunity and create exponential wealth have 1:10 or 1:15 employee-to-manager ratio. *Why?* Because they effectively delegate responsibility (and require performance) of all employees regardless of rank or level.

Micromanagement is a symptom of ineffective “*Command and Control*” military style leaders who cannot trust people, are not comfortable with process and systems, or both. An organization is bound to fail when leaders or key executives ego’s become more important than the success of the company.

It is a leadership requirement to foster a culture of responsibility and empowerment, and to ensure that managers and supervisors create an environment conducive for success.

5) Accountability >> Accountability begins with goal setting at all levels of the organization, followed by an effective measurement metric process. A culture based on accountability flourishes with results and creates a collaborative dialogue which will drive innovation and improvement. Communication Rhythms⁵ and Transparency (regular and frequent) provide updates on performance, progress, and results via:

- “Red, Yellow, Green” Progress Dashboards
- Benchmarked KPIs (Key Performance Indicators) against targets
- Celebrating Wins and Milestones
- Analyzing Losses and Issues

Common Management Attributes of Wealth Creation Enterprises

- i. Matrix Management
- ii. Teaming
- iii. Employee Led Initiatives
- iv. Role Clarity Monitored and Managed
- v. Greater than 1:10 Manager to Employee ratio
- vi. Bonus and Incentives Compensation becomes cultural

“Employee performance is simply taken too lightly; a quarterly or annual review is fine for compensation purposes, but simply absurd in terms of evaluating performance and setting expectations. People want and need “real-time” feedback, recognition, and guidance.

When an organization makes a true commitment to maximizing the performance of its employees, the business results can be maximized”

-Garry Meier

⁵ Communication Rhythms are established (formal or informal) meeting routines that ensure progress is evaluated, time is spent discussing strategy, tactics, activities and outcomes, and fosters healthy dialogue and appropriate conflict and discussions.





6) Ineffective Recognition >> It is human instinct to expect something in return when one achieves outstanding results. However, what is often misunderstood is that monetary rewards often pale in comparison to the motivation that is created through “public” praise and recognition. Too many managers fail to realize that non-monetary recognition is the most efficient method for motivating employees. Recognition programs should:

- Celebrate Wins and Create New Milestones of Success
- Recognize “Star Performers”
- Create Opportunities (initiatives) for employees to stand out
- Create team incentives
- Encourage “the team” to recognize other employees at all levels of the organization

7) Non-Performance Based Cultures & Environment >> The vast majority of B2B organizations compete on the strengths, capabilities, and merits of their people. In people-centric businesses that depend on the performance of their people, it is only logical that the business will succeed when it creates a performance-oriented culture. A few keys to creating a perform culture include:

- Create an environment that fosters efficiency (i.e. eliminate distractions and time wasters) and creativity (encourage innovation).
- Implement processes and methodologies that create collaboration and healthy conflict.
 - *Do people help each other? (i.e. do employees help and act like teammates)*
 - *Does healthy competition exist?*
- Does your company offer flexible scheduling? The difference between mediocrity and superior results is often the difference between “Wanting” to come to work and “Having To” work.
- Do policy and procedures create bureaucracy and de-motivate employees?
- Most importantly, create communication rhythms (regular or informal meeting routines) such that the people are heard.

8) Failure to Engage Outside Perspectives >> Whether formally via a Governance, Advisory, Customer, Partner, or Supplier Board/Panel or informally through primary market research, competitive intelligence, or mystery shopping; obtaining and adopting outsider perspectives is paramount to success in today’s complex and challenging business environment.

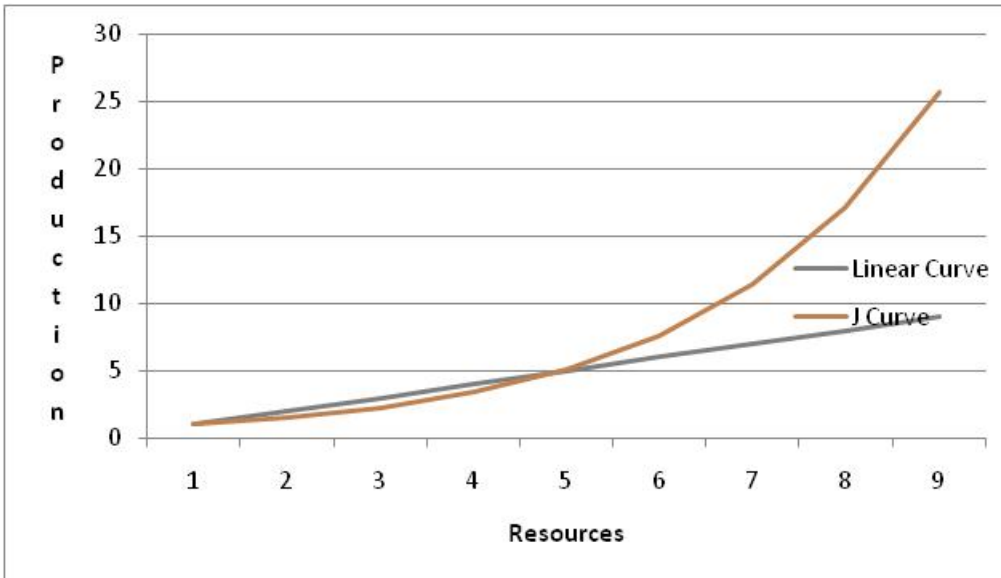
Environmental monitoring is a time-tested strategy; moreover, given today’s Internet paced world being aware of all the business surroundings: macro, industry, competitive, and internal has taken on new meaning as the speed of decision-making has become a requirement for effective leaders and success.





9) Little or No Scalability of the Business Process or Cost Structures >> Business

“Scalability” is the capability to add more revenues and production in a “J Curve” effect (i.e. 1+1=3) rather than a linear curve; i.e. 1+1 = 2.



Key Success Factor: Decreasing costs on a percentage basis as income rises, is a requirement to create wealth.

There is a fundamental economic reason why small services businesses average less than \$200k of annual revenues per employee, compared to mid-market enterprises approach half a million in revenues per employee; and the reason is largely attributable to scale. Creating scale requires efficient business processes, effective systems and playbooks, branding, positioning, and density inside a geographic region or vertical(s) concentration.

“No services business will succeed with Direct Sales (including founder’s contributions) is greater than 60% of the revenue. Alternative Distribution including Partnering is key.”

-Garry Meier

The simplest measure of operational scale is Revenue-Per-Employee & Profits-Per-Employee Compared to Industry Averages (other measures include: accounts per manager, manager-to-employee ratio, time from new employee onboarding to maximum efficiency).



10) Poor Business Performance Blamed on “More Sales and More Revenue” >> Inefficient go-to-market models, poor product/value propositions, ineffective business models, lack of scalability typically manifest themselves as a “Sales Problem.”

An organization’s first priority is to acquire customers and improve the way it serves its clients. Second, is creating an economically efficient business model and business process. If all of these are not in alignment then of course the company needs more revenue.

Clearly: The “New Economy” will ensure that “all boats will **not** rise in high tide”! Therefore a consistent and predictable Revenue Generating Business Model must include the following attributes:

- I. **Economically efficient customer acquisition model** (An economically efficient model that has been benchmarked against competitors and is more efficient). An efficient customer acquisition model has some of the following attributes established:
 - a. Recurring Revenue Model
 - b. Technology is leveraged and enforces client retention and satisfaction
 - c. The Customer Lifecycle is managed including multiple products/services are available
 - d. Pay-for-Performance policies and practices are prevalent
- II. **Cost-effective demand generation** (creating a sales opportunity is cheaper than it costs competitors to create)
- III. **Brand equities that drive enhanced margins and more cost-effective lead generation**
- IV. **Client management: Best of Breed client maturation processes**
- V. **Retention is monitored, managed, and performing in the top-quartile**
- VI. **Client satisfaction is known and the impact of client referrals generates substantial new revenues**
- VII. **Alternative Distribution** (Channels, Joint Ventures, and Strategic Alliances) **is established and creating consistent new monthly revenues** (i.e. these revenue channels are 1: Many versus 1:1 Direct selling)
- VIII. **The NLTV (Net Lifetime Value) and Market Size for each target market** (customer segment) **is mapped and known.**
- IX. **Market and Competitive Intelligence** as well as analytics are in place and lead to **real-time decision making.**

“95 % of the time when and owner tells me there is a sales problem: we find that operational shortcomings exist.”
-Garry Meier





Conclusion: Transforming to the “New Economy”:

The “New Economy” will no doubt challenge the best of minds and businesses. Ephor Group advises all organizations to access every aspect of their business against these barriers to success. As you identify deficiencies in your business we advise you not to take remedial action on a functional approach or in a task orientation.

Our experience had taught us that a “holistic” migration and transformation of the business creates the most effective outcome, while creating the foundation for long-term wealth creation. Of course, transformations are never easy, clearly do not happen overnight, and require commitment, resolve, process and skill.

Finally, those leaders and organizations that embrace the necessary change brought on by these challenges and barriers, while committing to a defined “Happy-Ending”, and subsequently deploy the resources required: will have the energy and the momentum to prosper.

