

2009 Top Ten Trends:

What the Top Performers, i.e. the "5 Percenters" Are Doing To Overcome Barriers to Value Creation

**Garry's Corner Office Perspectives:
Q1 2009 eNewsletter for Ephor partners and
clients**

10: Valuation as Your Decision Making Guide

- Goal: Profit Maximization.
- Objective: Reduce “Risk and Spend.”
- Strategies:
 - a) Increase near-term earnings by improving levers that impact a combination of Revenue, Operations, Workforce, G&A, and Management Scalability; and
 - b) Create strategic options for value creation (alliances, acquisitions, partnerships, etc).
- Using valuation as a tool for decision-making will align short-term and long-term interests as well as remove emotional fears.

#9: M&A as a Growth Driver

Mid-market enterprises have the:

- Opportunity to consolidate fragmented markets (quality investments more important than ever!)
 - Capital available to purchase distressed and “cheap” assets (in recessionary times is #1 PE priority)
- As a ‘Perform Businesses’ it is “time-to-shine”; the deals being transacted have positive cash flows and increasing revenue streams resulting in increasing valuations.

#8: Prevalence of Support Teams

Historically, small businesses' strategic advisors have consisted of CPAs, CFAs, lawyers, and bankers. Increasingly these advisors are being supplemented by advisors in various forms:

- A. 15% of fast growth companies have a **formal board of advisors**. Here is why:
- To achieve performance improvement objectives (50%)
 - Risk Management (50%)
 - To receive unbiased influence and outside recommendations (41%)
 - Strategic or financing partner (36%)
 - To enhance and augment executive management skill (20%)
 - To solve current near-term operating issues (19%)
 - Preparation for capital, exit, or going public (7%)
- B. **Advisory Panels** created that include either customers, and/or partners and suppliers.
- C. Retained advisors that serve as "**Operating Partners**" provide performance improvements, focus, and management skill augmentation.

#7: Management Science.

Have you ever wondered why some small companies have a manager-to employee ratio that is lower than faster growing companies?

Getting Started, Moving Towards Pragmatic Focus:

- ✓ Communicate Goals and Financial Performance to all employees. Reporting on performance, whether monthly or quarterly, holds everyone accountable (Transparency of metrics is key).
- ✓ Weekly Metrics Discussions. How well people are performing on a daily and weekly basis is the start of employee accountability.
- ✓ Business Intelligence (BI) and Workforce Analytics can bring focus on relative performance, rather than just absolute performance.
- ✓ Create an Outside Board of Advisors. Your board can be as formal or informal as needed. Depending on the stage of your business you may need a 'partner board' or 'customer panel' more than a typical board of advisors.

#6: Leverage Resources and Assets:

- Shift company mindset from the from "War for Talent" to viewing human resources as a profit center via "Human Capital Best Practices."
- Adopt productivity and management tools such as CRM, Portals, Wiki's, Collaboration, Social Networking, Web 2.0, BI, analytics, etc..
- Leverage networks, partners, and employee relationships to drive alliances, credibility, and revenues.
- Embrace best practices from consultants (Lean services for example), outsourcers (insourcing), and providers (latest tools and techniques).

#5: Outsourcing Adoption is Required.

- Both the mid-market and large market have comparable overall revenue potential. However, the mid-market produces higher margin outsourcers.
- 50,000 small businesses in the US alone outsource more than one business function!
- Buyer adoption varies across geography, industry, and company size however for \$1M to \$100M: nearly 10% outsource the HR function, 25% IT, and 40% part or all of accounting and finance.
- The Value Proposition Demanded by Organizations is Expanding:
 1. Buyers have moved far beyond cost savings.
 2. Must achieve strategic, operational, technology, human resources, and risk management benefits.
 3. Pricing is changing to on-demand, pay-as-you-go models:
 1. Buyers moving away from "Per Hire Fees"
 2. Non-transactional pricing models such as BPO concepts with performance guarantees and earn out pricing will become prevalent
 3. In a slowing economy, buyers prefer a componentized model (i.e. pay-as-you-go) over a wide-scoping transformation model. Customer potential for multi-process or entire functions has low penetration, especially in the small and mid-market; but partial outsourcing growth is escalating.

The **Promise of Outsourcing**

I. Outsource for **cost-savings** - which should produce 20% to 60% reductions.

II. **Access to best-in-class** business processes and methodologies, technology, tools, major enterprise systems, and knowledge banks.

III. **Resource savings** - i.e. focus employees, save executives and managers significant time, risk management, move from fixed to variable cost-savings, free training and adoption of measurement and metrics including scorecards, benchmarks, and SLAs.

IV. **Capability development** of a function, department, or competency area so that entrepreneurs have on-demand centers of excellence that can scale with their business, but their cost structures are still economically efficient and agile.

#4: Differentiated Services Offering

- **Carve Out Your Niche including:**
 - Price, product, place, promotion
 - Partner to “round-out” your service offering
- **Be Known.**
 - Credible and Compelling
 - Be Found Online
- **Economic Credit Crunch Ramifications:**
 - Do the tough work upfront or suffer the ramifications
 - Lower risk by focusing on what you can effect

Competitive Differentiation

All of the following are possible differentiating attributes:

- Innovation
- Service Excellence
- Industry or Specialized Expert (Specialist)
- Total (holistic) Solution Provider
- Low Cost
- Distribution Channels
- Branding
- Game Changer

#3: Product Trends

- i. "Productizing" services.
- ii. Bundled and/or Holistic Services Offering – i.e. "**Integrated Suite.**"
- iii. **SaaS** - In the technology area most vendors are expected to release SAAS versions of their systems. Some providers are building new versions based on .NET and in some cases Ajax.
- iv. Reporting, Workflow, Integration APIs and **Analytics / Business Intelligence** are quickly becoming required.
- v. Many research analysts (Gartner, Forrester, Aberdeen) predict that companies increasingly will gear up to address the new topic of the "**High-Performance Workplace**" (HPW).
- vi. **Corporate Cultural Match is Driving Solutions.**
- vii. **Offerings Must Include Quickly Achievable ROI.**

#2: Customer Acquisition via Alternative Distribution Models:

- a) Proliferation of online sales and service models:
 - i. Subscription models
 - ii. SaaS models
- b) Create strategic alliances.
- c) Leverage channels, agents, resellers.
- d) Partner with consultants, VARs, integrators.

#1 Targeting.

- Your customers can be segmented into three groups according to our research:
 - a) 20% of companies that are laying off and slashing costs.
 - b) 20% that are methodically growing (pursuing acquisitions, implementing initiatives, etc.).
 - c) The middle 60% that needs direction and is looking for cost-savings.

- All three segments represent opportunities, but the message to the mid-tier must be "I will save you \$3 (for which you get \$1)."

Trends Shaping 2009

In Conclusion:

"In 2009, wealth will be created for 'perform businesses' that are the most productive, cost efficient, promote and excel at change, and stay focused on being REALLY good at a few things (i.e. customer satisfaction)."

– Garry Meier

THANK-YOU!

Contact us for a pragmatic, no-obligation assessment of your business.

Read more at:

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