

Small Business Playbook for the New Economy

Situation, Trends, Actions, & Conclusions

Agenda

- I. Small Business State of the Union & Future**
- II. Results: Small Business Executives Survey**
- III. Required Actions for the Small Business Executive in The New Economy**
- V. Conclusions**

Small Business State of the Union

The Message is Clear.

- i. Small business will become < of the GDP (especially in the near-term).
- ii. Limited or Capitated market growth environment for small business.
- iii. **Small businesses will not recover and lead the economy out of recession as in 1985, 1991, and 2002.**
- iv. Less capital will be available. Valuations will be suppressed in the near-term and over the next economic cycle. Capital for 'asset light services businesses" will be more difficult. ABL lending will be limited and finite.
- v. Labor Supply versus Demand Imbalance will prevail. For mid to lower skills bigger government will accelerate labor supply demand imbalance.

Small Business State of the Union *Continued*

- vi. Small **business bankruptcy rates will occur and continue to increase** and remain at record levels.
- vii. **Higher taxes** for small business owners and their organizations.
- viii. **Inflation will be prevalent.**
- ix. **Survival tactics will be the norm in the near-term.**
- x. Federal government will not be supportive of the needs of small business: Big Business and Big Government Focus.
- xi. Wealth transfer is occurring and will continue for the foreseeable future.

Survey Overview – Q4 2009

- I. *Key Finding:* Approximately 2/3 of the Executives indicated their organization is **Underperforming** (primarily due to **Economic and Competitive Pressures**).

Situational Analysis:

- Recessionary economics and competitive pressures are continuing for the near-term. Small Business Executives admit being generally inappropriately skilled for the challenges of the New Economy.
- Increasing Need for effective **Product & Company Strategic Positioning** (“Market Discrimination”) and **Scalable Business Models**.

- II. *Key Finding:* 90% believe that Sales and Customer Retention/Satisfaction is directly linked to financial success.

Executive Priorities:

- II. 66% Product/Service Expansion
- III. 63% Partnerships/Alliances and Alternative Distribution
- IV. 50% Operational Efficiency and Improved Profitability
- V. 44% New Market Expansion (New Customer Acquisition)

Survey Findings

III. Key Finding: 75% indicated they do not have the necessary skills and expertise to accomplish their goals and objectives.

a. The top people issues that executives do not feel comfortable addressing are:

- 45% Responding to Changing Trends
- 40% Coaching, Training, and Development
- 35% Alignment of People to Strategy
- 25% Shortage of Effective Management and Supervisors

b. Executives do not feel comfortable or proficient in outsourcing the following areas:

- Human Resources Management (Strategic aspect only); 33% **do not** believe that Human Resources contributes directly to financial success.
- Training, Development, & Coaching; 1 in 5 **do not** believe that Organizational Environment and Workplace Culture contribute to their success.
- Operational Process Development (Measurement and Metrics)
- Strategy Development and Management

➤ **This “New Economy” for small businesses demands effective strategy, efficient and scalable processes including outsourcing, increased management science, and enhanced workforce management to maintain and create wealth.**

Small Business Playbook for the New Economy

“In 2009 and beyond, wealth will be created for ‘perform businesses’ that are the most productive, cost efficient, promote and exceed at change management, and focus on being REALLY good at a few things (i.e. customer satisfaction).”

-Garry Meier

#1: Change, Expand, and Enhance the Strategy Components

- Implement a 'Chief Strategy Officer' function.
- Create and implement Product Management capabilities and processes.
- Re-examine market dynamics based on the new economy.
- Conduct competent SWOT analysis.
- Engage outsiders perspectives.



#3: Implement Management Science.

Question: Have you ever wondered why small companies have a manager-to-employee ratio that is lower than top-performing companies?

Getting Started, Moving Towards a 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.
- **With pragmatic management science, incentive compensation plans can be implemented to support the business objectives.**

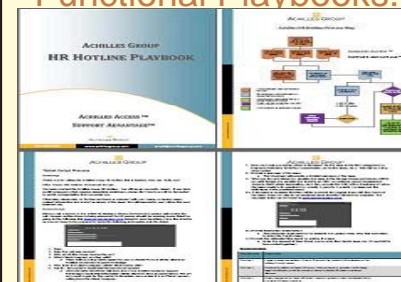
Dashboards:



Monthly Operations Management (MOM Report)



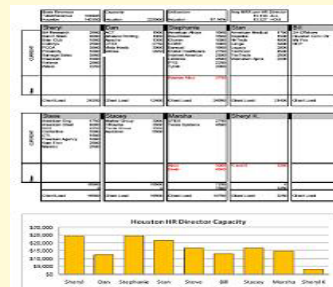
Functional Playbooks:



#4: Implement Cross-Functional Measurements and Metrics

- Start Measuring Operational Activities.
- Identify Process Needs and Improvement Areas.
- Implement New Processes for Scalability.
- Implement Communication and Reporting Rhythms including Dashboards and KPIs.
- Connect the 'CSO' (Chief Strategy Officer) to Operating Management and potential revisions to the business model and strategy.

People Scale:



Employee Engagement:

RSA Employee Climate Survey
2. Employee Relations

Statement	Strongly Agree	Agree	Disagree
1. Job Satisfaction			
My work gives me the feeling of personal accomplishment.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
I am provided with adequate tools to do my job.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
I am provided with opportunities for professional growth and development.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
I am satisfied with my career path.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Overall, I am satisfied with my job.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2. Employee Relations			
My manager is effective at solving employee problems.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
My manager recognizes my achievements.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
I feel that my manager is available to discuss job related issues.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Upper management does a good job in communicating its decisions to employees.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Overall, I am satisfied with my manager's performance.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Benchmarking:

Improvement Initiative	Goal	Measures
Revenue	Predictable, cost-effective revenue.	<ul style="list-style-type: none"> Customer Acquisition Cost Per Customer Per Source Cost-Per-Lead Per Source Duration (Days) sales stage length in # of days Velocity (# of new qualified buyers) # of Rating Firms by vertical
GAA	Back-office efficiency and scale.	<ul style="list-style-type: none"> % of administrative payroll to gross profit Non-payroll GAA to gross profit DSOs (Days Sales Outstanding)
Operations	Efficiency and scale.	<ul style="list-style-type: none"> Revenue per Operations Employee Quality/Client satisfaction/No-kill clients
Workforce	Robust, Capable of Growth, and Productive.	<ul style="list-style-type: none"> Revenue/Profit Per Employee Productivity Employee Engagement Days from onboarding to standard productivity
Management Science	Platform for growth.	<ul style="list-style-type: none"> Operating working capital % of operations with process mapping and documented instruction Balanced portfolio of revenue streams Pervasive measurement and metrics % of A and B Players

#5: Differentiate the Product/Services Offering

☑ Build Brand Equities.

- Do the tough work upfront or suffer the ramifications.
- Lower risk by focusing on what you can effect.

☑ Carve Out Your Niche including:

- Price, product, place, promotion.
- Partner to "round-out" your service offering.

☑ Be Known for Something Special.

- Credible and Compelling References ('Raving Fans', 3rd party testimonials and assurances).
- Be Found Online.

Productization 101:



Competitive Differentiation >> All of the following are possible differentiating attributes: Innovation (Apple), Service Excellence (Southwest Airlines), Industry or Specialized Expert Specialist (Towers Watson), Total (Holistic) Solution Provider, Low Cost Provider (Dell), Distribution Channel(s) (Amazon), Branding (P&G), Game Changer (Netflix).

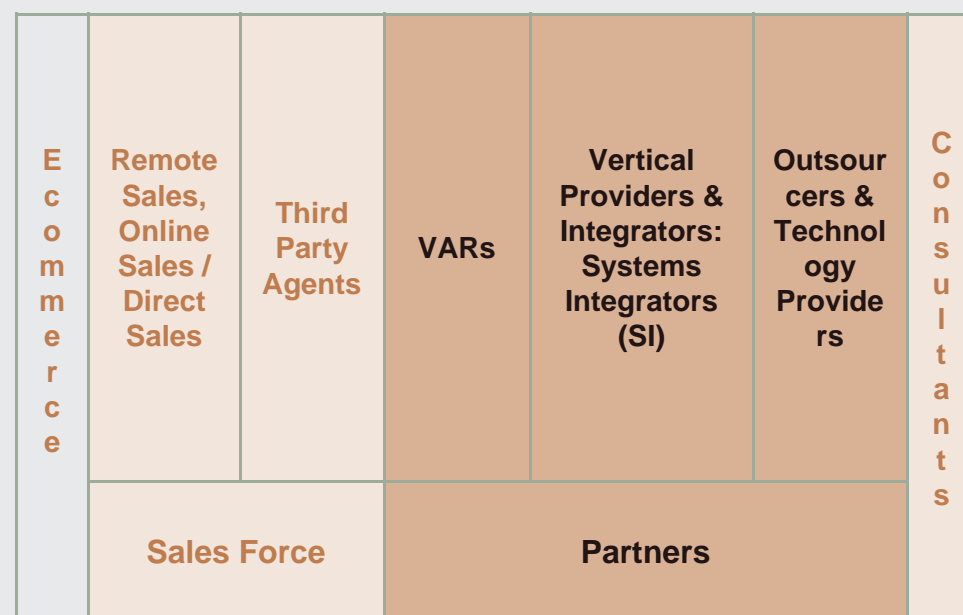
#6: Create Product and Distribution Portfolio

Lead Source Effectiveness:

Cost Effective Source of Clients aka "PBP – Prospective Buyer's Pool"	Cost-Per-Lead	Close Rate
#1: Customer Referrals	NA	33%
#2 Event Seminar	\$400	14%
#3 Inside Sales	\$493	10%
#4 Telemarketing	\$233	8%
#5 Networking	\$75	3%
#6 Online Marketing (Paid Search)	\$143	4%
#7 Webinar	\$400	4%
#8 Direct Marketing	\$250	2%
#9 Trade Show Conference	\$500	2%

***Only put a salesperson face-to-face with a prospect when there is a 30% chance or higher of buying.**

Alternative Distribution:



1. **Step One: Identify partners and channels that have the same profiled buyer.**
2. **Step Two: Create Strategic Alliances with a select few.**

#7: Grow Organically

Illustrate Organic Growth Capabilities via a Balanced Business Model:

- I. New product market entry; use penetration products;
- II. Additional revenues from existing customers;
- III. Value-added products to existing customers;
- IV. Economically efficient customer acquisition costs; and
- V. Create “Pull and Profiled” Demand from effective and efficient marketing.

#8: Drive Growth with M&A.

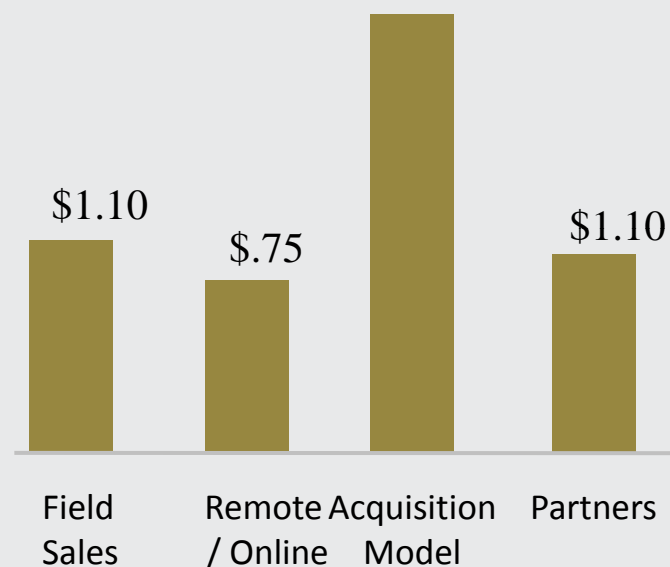
Acquire and Merge to Mass Density, Increased Capability, Scalability and Growth

- Implement a process driven and defined Corporate Development / Business Development program
- Valuations are and will be attractive in the near-term resulting in accretive arbitrage opportunities
- Engage outside advisors and professionals
- Corporate development minimizes execution and investment risk

Mid-market enterprises have the:

- Opportunity to consolidate fragmented markets (quality investments more important than ever!)
- Capital is available to purchase distressed and "cheap" assets (in recessionary times is #1 PE priority)

Costs to Acquire \$1.00 of
Revenue:
\$2.00



- 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.

#9: Connect Compensation to the Strategy and Business Objectives

- ☑ Enhance Variable Pay Components
- ☑ 'Total Compensation Concept' (not only cash portion)
- ☑ Equity based incentive programs
- ☑ Significant rewards for 'A Players'
- ☑ Workplace is an 'experience'

Perform Business Process™:

Connect and align compensation to the Strategy, Business Model Components, and the Business Objectives.

Strategic Clarity	Tactical Clarity	Operational Clarity
<ul style="list-style-type: none">•Optionality created•Core competencies creating increasing value-add and returns	<ul style="list-style-type: none">•Customer Lifecycle Productized and managed (Balanced portfolio of solutions and customer concentrations)•Customer satisfaction measured•Systems, tools, roles, and processes defined and scalable	<ul style="list-style-type: none">•Daily branch activity management•Communication rhythms•Operational performance achieves top-quartile

#10: Achieve Stakeholder Balance and Constituency Alignment

- ☑ Customers, Employees, Suppliers/Partners, Owners Interest's are Aligned.
- ☑ Utilize Advisory Board or formal Board of Directors.
- ☑ Create Customer Councils.
- ☑ Benchmark Organizational Performance and Metrics to Industry Standards.
- ☑ Define and adhere to the "Happy Ending."



New Economy Conclusions

1. **Mediocrity will Insure Failure.**
2. **Change and Improvement is Required.**
3. **The Small Business Executive Requires External Support and Skill Augmentation to Survive.**
4. **Effective Strategy Elements are Critical to Success.**
5. **A Holistic Approach is Imperative for Success.**
6. **The Most Efficient Supply and Cost of Capital will be from:**
 1. Operational Improvement (Increasing Net Income); and
 2. Corporate Development; and
 3. Valuation Arbitrage.

