EPHOR GROUP

Five Ways Ephor Grows Your Business

Planned growth properly executed leads to increased profits, higher valuation, increased brand equities and shareholder value, and thus wealth creation. As opposed to a lifestyle[1] business where owners take money out of the business, but are required to run the business; wealth creation today can mean taking "two bites of the apple," 1) get capital today and thus financial security plus 2) growth financing to create future opportunities.

Whether growth is organic, via acquisition, through alterative distribution, or geographic is a cost-benefit decision for every executive that should be based on the effect on the business' vision and valuation.

Vision ("Solve Business Problems with HR", "Make People Happy", "Revolutionize 21st Century Payroll") is a required qualitative component based on the long-term goals and aspirations of the founder and/or executives which motivates the workforce. Valuation is the financial, quantitative decision factor. There is no financial principle more important for private companies than valuation.

Business valuation – a firm's total net worth in the marketplace if it were purchased – is an underused guideline for decision making. Whether a firm is in startup or expansion when short and long-term decisions are made with valuation in mind executives are making the best choices possible for the business.

This brief outlines five strategic methods for growing a business based on increasing valuation as the guiding principle.

solving the value equation

1 "Lifestyle Businesses" are businesses run by their founders primarily with the aim of sustaining a particular level of income; or to provide a foundation from which to enjoy a particular lifestyle.

About Ephor Group

Ephor Group increases valuations for mid-market technology and service businesses. Our approach is proven, pragmatic, and performance oriented.

Our methodology, the Perform Business Process™ fills in the gaps where functional expertise and capital are constraining the business. Ephor has a deep track record for creating wealth for founders, executives, and investors.

About the Ephor Group Team

Garry Meier founded the Ephor Group to apply the performance improvement methodologies and shareholder value enhancement processes he and his associates developed over his thirty plus year career.

Ephor Group is a boutique growth consulting and capital investment advisory firm comprised of seasoned executives with a deep track record of transforming small businesses into emerging platform or niche leaders.

"I've found that businesses almost always have a fundamental strategic issue on top of whatever operational or financial problems they have identified. Solving the underlying barriers to value creation can be a real challenge with the wrong tools."
–Garry Meier, Investor Webinar Fall 2007.

Ephor Group Background

Ephor Group's executives are seasoned veterans that have been consultants as well as either an investment banker, institutional investor and /or company operator.

Recent Assignments Highlights

- Achilles Group, HRO
- Perquest, Outsourcing
- CCVG, Business Services
- SmartTime Inc., Workforce Management
- Certus Corporation, Healthcare Services
- CentriconHRA, HR Technology and Services
- Latin American Card Services, Business Services
- Baird Capital Partners, Private Equity
- Baird Venture Partners, Venture Capital
- Personalogy, HR Services
- Workplace Solutions, HR Technology
- TalentTree, HR Services
- The Cap Street Group, Private Equity
- Outsource International Inc, BPO
- Medaphis Physician Services, Healthcare Services
- Global Integrity Outsourcing, BPO
- Technology Service Solutions, IT
- Automated Information, IT

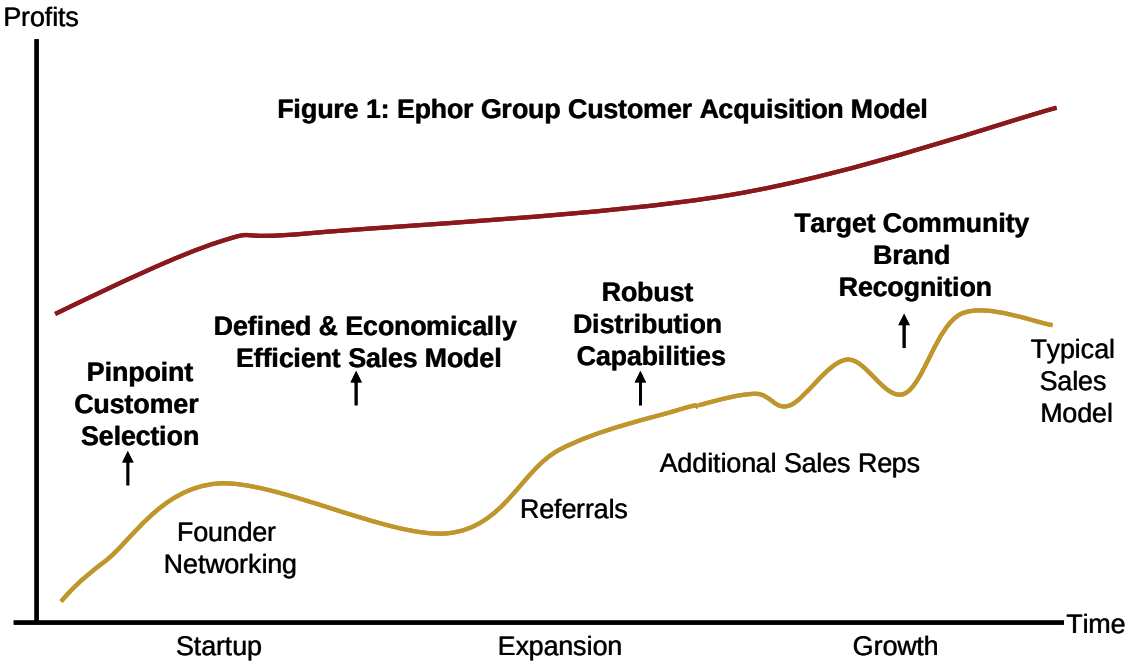
Ephor Group is highly recognized as an industry thought leader in outsourcing technology and service companies including BPO/HRO/HCM/FAO/CRM and healthcare services.

Ephor Group provides growth consulting, financial engineering, and capital to guide small businesses into emerging enterprises while creating wealth for all shareholders.

Additionally, Ephor Group is an advisor to private equity and venture firms on their investment strategies and portfolio companies.

V. Best-in-Class Customer Acquisition Model

A process and metrics driven customer acquisition model for B2B companies is needed to transform event-oriented sales approaches that rely on one-time events, referrals, and founders to an efficient system that is scalable, consistent, and cost-effective. The majority of small businesses have a cyclical and unplanned customer acquisition model which prevents consistent growth, results in higher cost-of-sales (anything above 30% is excessive), under use of resources, and a long sales cycle.



A well defined customer acquisition model is essential for both growth and institutional investor funding. For a small business to be considered "investment grade[1]" by private equity requires the following components:

1. Proven and compelling value proposition with proof of concept customers for each defined target market and product/service category;

[1] "Investment Grade" is a business that meets investors industry focus, market opportunity requirements ($ revenue potential), financial criteria, and has a high probability of being funded.

2. Repeatable (highly consistent average revenues, sales cycle, and price) and well established and forecastable pipeline;
3. Top quartile performance for customer acquisition cost, average sales price, and sales cycle time as benchmarked against competitors and/or industry standards;
4. Understanding of net present value (NPV) per client, unit of one margin effects, and operational impact of each new customer by type and product/service; and
5. Top three most cost-effective business development model in the industry sector (lower percentage cost of customer acquisition than competitors).

There is a simple two part test to determine if a business has a defined customer model:

1. Part One: Is customer acquisition cost below 20 percent of first year's revenues? and
2. Part Two: Is today's WAPV (weighted average pipeline value)[2] twice (2X) the revenue goal for the next twelve months?

If a business cannot definitively answer YES to the above two questions then there is substantial room for improvement.

IV. Alterative Distribution

Determining the most economically efficient distribution channel(s) is often the key to fast-growth sales and lower customer acquisition costs. Whether a direct or multi-channel approach is needed depends upon each particular situation; however the majority of businesses underestimate the value of establishing robust channel and referral programs.

Relying on a direct relationship based sales approach can result in excessive customer acquisition costs. Unless a business' average sales price is $100k annually or greater than the majority of business must come through alternative distribution or transaction sales to effectively compete with larger competitors.

[2] WAPV is calculated as the sum (total number of proposals in hands of prospects) of each potential deals' revenues in the pipeline multiplied by their probability to close and become revenue.

Executives often develop their salesforce based on their previous experiences or industry standard norms – both can be flawed rationale and too often impede valuation as copy-cat strategies are not often the path towards wealth creation.

When alternative distribution is created and established wealth is created. For example, the financial advisor sector in the 80s was ruled by Wall Street firms; Mr. Edward Jones saw an opportunity in a different sales model – "personal" agents in secondary and tertiary market locations that could "bring Wall Street to Main Street". Today, the Edward Jones Company is one of the great American service business success stories. Developing alternative distribution can take many shapes and forms but it takes guts to buck the industry norms and experience to wisely develop robust distribution capabilities that lead to above industry average returns.

Many small businesses over rely on their founders for networking and referral at the expense of building a scalable and efficient business. Figure 2 is an example of the level of insight that every small business should posses.

Figure 2: Partner Development & Readiness Report

		RESULTS			STATUS					
NAME	TYPE	LEADS (#)	DEALS (#)	VALUE ($)	INITIAL CONTACT	F2F MEETING	CONTRACT	SUPPORT/TRAINING MEETING	LAST MEETING	NEXT MEETING
Referral Partner A	Broker	26	14	$378,000	Completed	Completed	Completed	Completed	12-Nov	4-Dec
Referral Partner B	Outsourcer	14	9	$259,092	Completed	Completed	Completed	Completed	12-Nov	4-Dec
Referral Partner C	Acctg - Gold	9	3	$72,000	Completed	Completed	Completed	Completed	12-Nov	4-Dec
Referral Partner D	Acctg - Silver	3	1	$24,000	Completed	Completed	Completed	Completed	19-Nov	4-Dec
Referral Partner E	Acctg - Bronze	1	-		Completed	Completed	Completed	Scheduled	15-Nov	6-Dec
Referral Partner F	Integrator	-	-		Completed	Completed	Completed		*TBD*	*TBD*
Referral Partner G	Consultant	-	-		Completed	Completed	Waiting		*TBD*	*TBD*

III. Integrated Business Development Process

Integration of marketing and sales is the key to generating demand, decreasing customer acquisition costs, and ensuring utilization of every marketing and sales dollar. As opposed to event-oriented advertising, marketing's job is to build interest and sales to initiate customer relationships.

DIFFERENCES BETWEEN INTEGRATED AND DISTINCT BUSINESS DEVELOPMENT PROCESS

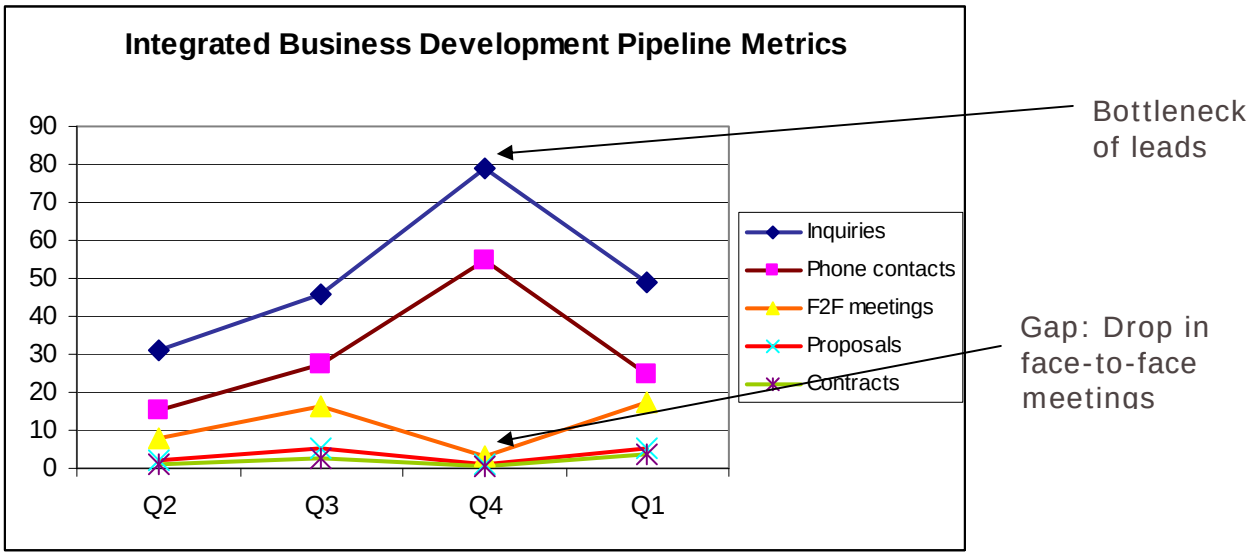
Objective	Non-Integrated	Integrated
Right Activity	Sales complains about quality of leads and marketing blames sales for not closing deals	Marketing supports sales with different activities and programs at each stage of the customer buying process from 0% introduction to 100% customer close
Quality Performers (A & B Players)	Requires A players to have results and peak and valley selling is still the norm	Sales reps deal with prospects that are only qualified and have interest vs. whomever they can meet with
Best Practices & Processes	Event oriented (one-off activities), Lack of training and defined processes	Sales reps sell profitable deals while channels sell deliver additional customer types
Cost-Effective Programs	Unknown ROI of specific campaigns, lack of a performance reviews	Lower customer acquisition costs Builds long-term marketing asset

A common mistake in service oriented businesses is separating marketing and sales into two functions. Since marketing's job is to support sales; having one integrated function focuses all activities on driving value at every stage of the pipeline from 0 percent (before introduction) to 100 percent (customer close/win).

Viewing marketing and sales as one integrated process from 0 to 100 percent forces companies to treat customer acquisition as a process and to focus on the right activities which generates

lower customer acquisition costs, higher average sales prices, higher earnings for sales personnel, more productive employees, and satisfied customers.

With integrated business development firm's can identify where the gaps and bottlenecks in their pipeline are occurring.



Are the two issues above a people, process or system issue and what action items are being taken to resolve the issue? An integrated process enables firms to forecast issues, identify causes, and take action.

Growth firms spend 5-10 percent of expected revenues on marketing. Lack of marketing (i.e. front-end pipeline activity) means that sales reps have to find prospects, educate prospects on why to buy, identify their pain, consult on alternatives, drive solution selection, and work the deal through contracts to close. Focus on non bulls-eye prospects is a waste of resources. Effective marketing is an essential component of any fast-growth company as it ensures people are focused on the right activities with the right prospects at the right time.

All of the following must be in 100 percent alignment to realize fast growth and long-term value:

Customer Buying Process					
Customer Stage	**Introduction**	**Awareness**	**Interest**	**Evaluation and Decision**	
Pipeline Stage Probability of Close	**0% Customer Selection**	**5%+ Marketing**	**20%+ Sales**	**80% - 100% Customer Win**	**Purpose & Value**
Business Process	Go-to-Market Strategy for each product/service				Highly defined target market definition and customer segmentation reduces costs and improves results
				Compelling Value Proposition / Competitive Differentiation	Marketing and sales can generate demand but it requires a compelling value-proposition for customers to buy
	Model Definition and Process Implementation				Maximize every dollar and staff work hour
		Marketing Mix Optimization			Focus sales personnel on qualified buyers and lower cost-per-lead and cost-per-meeting
	Alternative Distribution				Increase number of deals
			Sales Force Territory, Compensation & Incentive Design		Ensure workforce utilization, productivity, and performance
	Measurement and Metrics System				Monitor gaps, bottlenecks, people productivity, program effectiveness, and results
	Customer Relationship Management				Build repeatable, scalable processes and long-term assets

II. Customer Lifecycle Management

Customer Lifecycle Management ensures financial performance. Customer Lifecycle Management initiates with knowing the total value and cost of each specific customer acquisition for each product and service level. Second, consumer/prospect categories are then developed with appropriate business development strategies for each customer segment.

Because time is precious focusing on only the most qualified buyers versus a shotgun scattered approach is essential for any firm without an abundance of capital.

Customer Lifecycle Ten Key Success Factors

1. Know cost and value of each additional customer
2. Treat each customer, product/service category as a distinct P&L
3. Map the Customer Lifecycle from the buyer's perspective
4. Implemented customer satisfaction index that indicates when customer's are or about to be unhappy and drives action to ensure customer retention
5. Understand why every customer:
    1. Buys
    2. Stays
    3. Refers
    4. Leaves
6. Identify margin, cost, SG&A burden for each customer
7. Focus business processes to serve and extend customer tenure
8. Reward and incent employees based on Customer Lifecycle key performance indicators
9. Continuously search and improve what make customers "sticky"
10. Benchmark Customer Lifecycle against industry leaders

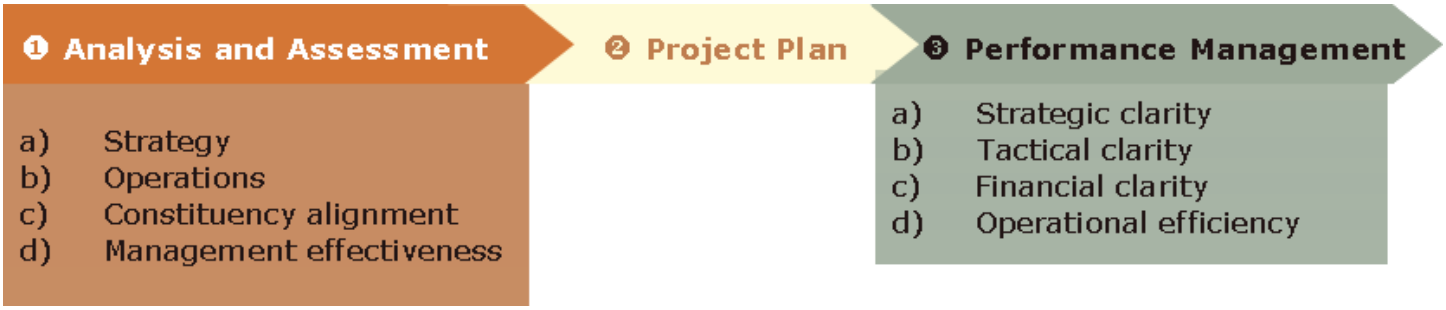
> ***"Attracting Useful Capital is a given for the businesses we work with."***
> - Ephor Group Chairman Garry Meier

I. Perform Business Process™

The goal is sustainable strategic and operational improvement. The Perform Business Process™ was developed specifically for private technology and service based businesses to increase shareholder value. It is a blue print for organizations to lead them to the next stage of their development by improving three business aspects, strategy, tactics and operations, that are often out-of-alignment.

This three prong approach includes balancing stakeholders, multidisciplinary and functional improvements, and formulating long-term vision.

Perform Business Process™



Because of increased technology advancement, legal and employee risks, the Internet, globalization, talent shortage, and larger enterprises moving down-market labor intensive businesses that do not have the resources of their larger counterparts are more apt to fail; especially if their region or industry experiences an economic slump. Characteristics of businesses that Perform Business Process™ was designed for include:

- ☑ Change is not easily accepted by the organization
- ☑ Customer acquisition costs are excessive
- ☑ External factors and macro-economics drive the competitive environment
- ☑ Long-term value can be impacted by strong desire for immediate results
- ☑ Profitability is generally driven by mass and density inside geographic markets
- ☑ Sales process is based on availability of resources and labor market
- ☑ The cottage nature requires “high touch management”

The objective of implementing best practices for technology and service based business performance are to:

1. **Increase near term earnings** and the EBITDA generating capacity of the business within current economic conditions;
2. **Develop long-term operating infrastructure** to ensure performance is maximized, and scalable; plus
3. Position the company to attract an array of strategic alternatives for **value realization** i.e. wealth creation for owners and equity shareholders.

Outcomes of Perform Business Process™

Strategic Clarity	☐ Position the firm to take advantage of its internal capabilities aligned with the market opportunity (verify target market revenue potential) - Strategic positioning is about mitigating competitive threats and substitutes while positioning the firm for maximum valuation ☐ Solve buyer needs ☐ Assess whether current capital structure adequate to ensure growth, motivate employees, and ensure quality long-term strategy ☐ Develop a unique business model with corresponding best-in-class processes ☐ Focus and align the business strategically, operationally, and tactically across all activities and constituencies
Tactical Clarity	☐ Routizine the business model so that is has the potential to become the "branded" model in its space ☐ Focus on implementing the right businesses processes and then identify the correct roles, responsibilities and outcomes needed and then fill the jobs with the right people ☐ Implement a decision management system to guide executives, managers, and front-line staff ☐ Customer selection – what is the most cost-effective method for identifying

	prospects for marketing to call and set appointments ☐ Define and routinize scalable and repeatable business processes[3] at all levels. ☐ Align people activities and their compensation with tactical business objectives ☐ Customer selection is the key to "perform businesses" – onboarding the right customer will lead to higher average revenues, longer tenures, and happier customers ☐ Implement and rountizine 20 percent cost of customer acquisition model ☐ Integrate compelling value proposition and sales message from 0% (website, print materials, etc.) to 100% (new customer and beyond) ☐ Identify and map the effect of referrals and partnerships on the business ☐ Map sales and operations to Customer Lifecycle ☐ Map and communicate a clear "definition of success" for each team member ☐ Regular identification of people performance ☐ Customer satisfaction measured and monitored ☐ Refined forecasting and forecasting process ☐ Ensure IT, MIS, and technology is contributing to the financial performance of the business
Operational Clarity	☐ Benchmark top quartile operational performance at each department and functional level ☐ Implement forecasting including measurement and metrics at the day-to-day activity and weekly management review level ☐ Implement dashboard of top 10-12 management indicators ☐ Develop functional support (in-house or outsourced relationships) for customer acquisition, onboarding, service delivery, and transition ☐ Move from event-oriented to process-activity orientation ☐ Implement leadership development program

[3] Inventory of the business reveals A and B players without defined processes, automation, or support systems. Process efficiencies must be realized at every department and functional level especially across SG&A. Also, firms now shaping the RPO market recognize that winning the war for talent is on two fronts - acquisition and retention.

	☐ Implement Activity Based Costing ☐ Daily branch activity management ☐ Back office productivity improvement ☐ Risk management/workers comp initiatives

Wealth creation will not stem from 25 percent annual growth. Service companies are "perform businesses" that respond to processes and metrics. As the labor markets tighten the sales process will be based on availability of resources and skills matching. Most executives have a strong desire for immediate fixes vs. positioning the business for long-term value maximization ("expectation gap"). Underperforming employees are often "entitlement oriented" and change is not easily accepted by organization. Every component of the business needs alignment from the strategic to operational to tactical to expand in an economically efficient manner. Before capital is needed to expand the business alignment of all activities needs to occur, processes must be defined, and customer acquisition model must be proven.

> ***"Hope is not a strategy - a metrics based decision management system should support and guide all business decisions."***
>
> - Ephor Group Chairman Garry Meier

Our research and experience have taught us that our Perform Business Process™ compliments businesses current competitive advantages and helps shore-up non core areas such that the organization outperforms its industry peers and achieves higher than average returns.

Conclusion

Small businesses are either growing or shrinking. Because of technology advancement, legal and employee risks, the Internet, globalization, talent shortages, and larger enterprises moving down-market labor intensive businesses that do not have the resources of their larger counterparts are more apt to fail; especially if their region or industry experiences an economic slump.

Overtime, companies that focus on making decisions based upon valuation have more robust sales pipelines with shorter sales cycles, the entire workforce is productive and motivated, and the business model provides higher profits than competitors.

Most small firms over rely on the founders and referrals for new business and as they grow need scale and process efficiencies to avoid preventable growing pains. For example, when businesses expand to multiple locations analytics and a decision management system to guide daily choices are needed so that the system for making choices is not at random or based on gut feelings.

Penetrating the SMB marketplace takes superior knowledge of owners' rationale, understanding of the inner workings of small firms and decision making criteria of SMBs, and also a little voodoo. The voodoo is what we call Perform Business Process™.

***Did you enjoy this article?* Drop us a line and let us know your thoughts on solving the value equation at ephor@ephorgroup.com.**

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