



Common issues that keep businesses from being exceptional

Most business owners are seeking “extraordinary” solutions to solve corporate growth issues. There are corrective actions a business can use to increase revenue, profits and corporate value.

By Brad Dawson

The owner of a regional engineering firm was struggling to find ways to increase corporate revenues. In the last three years, he invested in aggressive business development and public relations efforts, hired senior-level employees to bring “instant” experience to his management team, and kept current on every new management theory that made it into print. The net results, however, were incremental improvements, at best. His investments in growth far surpassed his expected returns.

Does this example sound familiar? Most business owners are seeking “extraordinary” solutions to solve corporate growth issues, when in fact, there are a series of simple corrective actions that will substantially increase business revenues, profits and corporate value. These growth issues are so common that I have labelled them “business truisms” — as they seem to appear at nearly every business.

Avoid the inverted pyramid

An ideal organizational structure reflects a pyramid — with a large, strong base of junior employees topped off by significantly fewer senior management leaders. The logic is that profit margins (as a percentage) are much higher for junior employees than margins associated with senior managers. As a result, pyramid organizational structures may yield lower gross revenues, but significantly higher profits — the real objective for any business owner. Unfortunately, the economic downturn has forced



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many businesses to cut back on staff. Business owners will often eliminate junior positions prior to cutting senior level individuals which creates an inverted pyramid structure. Once inverted, senior-level employees start to do tasks that were, in previous periods, being done by junior employees. As chargeable rates for senior level managers are not consistent with the actual lower-level work being accomplished, firms are forced to cut rates and erase any form of profitability.



Don't give it away

Business owners often scrutinize the chargeable (or productive) levels of every employee. It is their objective to squeeze out every possible level of productive value from every resource. But, do they hold themselves to the same level of accountability? They may work long hours (as every business owner can attest), but are they charging their customers for their contribution to their projects?

Business owners should charge for their efforts. Not doing so is the same as giving their skills away.

In general, most business owners only charge 25 per cent of their chargeable client efforts — allowing the client to receive the business owner's talents at a 75 per cent discount. Business owners are typically the most expensive and talented resource in their business. Reasons for not charging clients directly appear to mask themselves behind arguments of “meeting client budgets” or “maintaining high levels of quality control.” Regardless, business owners should charge for their efforts. Not doing so is the same as giving their skills away.

Measure “real” corporate chargeability

A regional architecture firm was convinced it achieved an all-time chargeability record — with sustained chargeability levels in excess of 95 per cent. As project work continued to go out the door, the principals were dismayed that record chargeability had not yielded higher levels of owner compensation. There had to be a problem — after all, how could they work so hard and have so little to show for their efforts? The problem was in the calculation of corporate chargeability. The architecture firm had calculated its chargeability based only on those individuals who had an ability to generate chargeable hours —

leaving behind the large (and somewhat bloated) administrative and marketing structure. When the full firm was included in the calculation, the corporate chargeability rate dropped to 54 per cent. The non-chargeable contingent was dragging down the effectiveness of the office. It should be no surprise that the administrative and marketing positions were soon trimmed to accommodate the real needs of the firm.

Too many customers

For most businesses, approximately 20 per cent of their customers generate over 80 per cent of their revenues — the familiar 80/20 rule. But why does this phenomenon occur? The answer is usually found in two places: either a firm has several customers that are woefully under-performing or it has customers that should not be customers. How can one tell the difference? Look at your largest revenue generating customers. What common characteristics do they share (e.g., industry, revenue size, decision-making process)? These common characteristics form an ideal customer template — literally a predictive pattern that allows you to measure the potential of your existing (and future) customers. For customers who meet the “ideal” characteristics, aggressive efforts should be made to increase the revenue per customer metric, thereby, elevating these entities to higher levels of performance. Conversely, those customers who do not meet the “ideal” characteristics should be eliminated.

Too many industries or none at all

Finally, in how many industries do you claim expertise? Unless you are a large, multinational firm, the answer should be in the single digits. For most firms, the cost of effectively penetrating any industry is a costly, intensely labour-oriented activity — not something that can be accomplished by shot-gun marketing approaches. Of greater concern, however, are those firms that claim expertise in horizontal capabilities — mistaking that knowledge for industry intelligence. Far too often, firms identify areas such as technology and government as industry classifications only to find that multiple industries occupy these horizontal designations. As a result, firms that practice this “no industry” philosophy are branded generalists making low-cost the primary basis for customer selection.

Good news

The good news is that all the “conditions” mentioned in this article are easily fixable. They do not require high levels of outside intervention or the implementation of the latest management theory. They require good old-fashioned management common sense. Are you ready to make your business exceptional? ■

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