

SIX STEPS TO CREATING PROFIT

*A Guide for Small
and Mid-Sized
Service-Based
Businesses*



PATRICIA SIGMON

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Six Steps to Creating Profit

**A GUIDE FOR SMALL AND MID-SIZED
SERVICE-BASED BUSINESSES**

Patricia Sigmon



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*to my mother, Patricia Velten, who shared her
entrepreneurial spirit
with her five daughters,
to my husband, Lyle, who helped me to have a great time,
and
to my three greatest accomplishments in life: my children,
Christie,
Robin, and David.*

Foreword

Years ago I was on my first e-commerce deal and I was hesitant to charge enough to make a profit. “A guy like that can handle a number like \$50,000 because he needs the solution,” Patricia Sigmon leaned over and whispered to me in the plush boardroom. And with that prompt, I bumped my price, asked for the business, and won a profitable project for my new consulting company.

That was a memorable day for me. Patricia’s advice was so simple and clear. It made all the difference. And now, Patricia shares her secrets for making your business more profitable in *Six Steps to Creating Profit*. These hard-won tips are here for the taking.

I found my head nodding as I turned each page. Many of the tips are common sense. Some are surprising. Time and time again Patricia reminds us that we—the owners—are the driving force behind our businesses. We need to create positive change. That is the one constant in business and in life.

Patricia points out that profit makes your business strong. Profit makes it possible for you to meet your obligations. Profit gives you options. *Six Steps to Creating Profit* details the continuous process that you need to check prices, reevaluate old ways, and take advantage of new tools; and in today’s Internet world, continually adjusting to fast-changing forces is more necessary than ever.

The lessons here are as important to experienced business owners as they are to those of you just starting out. Even I learned new things I need to do for my business.

The book concludes with what I believe to be its strongest point: You must make everyone in your company a salesperson. Gone are the days when only the owner or lone salesperson was responsible for generating revenue. Enrolling all employees in the sales process throws a wider net to generate more profit. It turns your team members into solutions providers and profit makers.

Six Steps to Creating Profit is filled with pertinent lists. I return to Patricia's lists of key questions again and again. Each time I consider the questions, I see a fresh new perspective. How can I apply this now? How can I solve a customer's problem? What forces are changing the business landscape? How can my business remain relevant? This book reminds us how important the processes of constant improvement and problem solving truly are.

I am fond of saying "Problems are our friends." I feel they encourage us to improve the way we assess, respond, create, plan, implement, and lead. You should always be willing to think, question, recommend, and review. *Six Steps to Creating Profit* provides a framework for positive change leading you to more profit.

Let this be *your* memorable day—the day you take on the *Six Steps to Creating Profit*.

David R. Harris
President, EC Internet

Preface

Starting a business and staying in business is not an easy task. And, as if having business longevity isn't enough of an accomplishment, the business is expected actually to make a good profit. Profits help the owner to get paid, help to fund retirement accounts, help to fund college accounts, help create good business valuations to attract future buyers, help with cash flow, help with bonuses, and help create a safety net should something go wrong.

Most business books that are on the market address the “normal” processes of a business—How to Start a Business; How to Write a Business Plan; How to Be a Great Salesperson; How to Develop a Marketing Plan; How to Be a Project Manager. Everything you need to know to set up shop, get a client, and service the client is available in many a How-To guide.

But what about the daily trials and tribulations of cash flow, missing profits, shrinking sales, new competition, or a stale workforce? What about the business model where sales are devoured by expenses? Or the model where you are working more and making less? How can sales be increased, business expanded, longevity attained, and profits realized when the daily grind of money, collections, and lack of profits continues to take center stage? If there is a broken business model, there are ways to get it fixed!

Certainly, not all businesses are alike. Yet, among privately-held, service-based, small to mid-sized businesses, there are a lot of similarities. There is an owner, a founder, a president, a boss—someone who calls the shots, makes the big decisions, and takes the big falls. There is labor being performed—service to clients. It could be legal, accounting,

consulting, office cleaning, painting, plumbing, nursing, or any number of other services. The business feels the strains of the economy, cash flow, or missing profits almost immediately and often needs to mingle personal and business matters and money.

For these businesses, there are six tried and true steps that deal with the everyday problems that, ultimately, show themselves very clearly in one place—lack of profit. In each of these steps, there are several examples where renovation and reengineering of old practices will result in a more streamlined, profitable business model, centered on profitable sales.

In this book, the following six steps are explored along with suggested changes to the business model:

Chapter 1: Changing the Rules of Operation.

New sales centers, expense-cutting suggestions, computerized profit and loss, labor utilization, and sales tracking are discussed.

Chapter 2: Staying Visible and Connected.

Marketing-gearred credentials and Internet-based strategic alliance programs are explored with sales generation in mind.

Chapter 3: Maximizing Cash Flow.

Cash-flow-friendly sales models, income and expense budgets, and managing up-to-the minute profit and loss numbers are detailed.

Chapter 4: Streamlining Management Costs.

Streamlining administration, creating new profit centers, and maintaining up-to-date, synchronized, shareable company data are discussed.

Chapter 5: Raising the Marketing Bar.

New Internet marketing methods, updated standard

marketing methods, and return on investment computerized measurement are explored.

Chapter 6: Making Everyone a Salesperson.

Replacement of an expense-gearred business model with a sales-gearred, marketing-driven, data-rich business model is presented.

A company looking to solve profit problems may be a new company starting out, trying to learn from other's mistakes and avoid profit pitfalls. Or it might be a highly successful, already profitable business looking for new profit-making ideas. But the companies most needing help are the ones that are just barely getting by with their profit model or the ones deep in red ink with a model that may close the business doors very soon.

There is no comparison between a new business and an old business as far as life experience goes. So, cures for profit problems in a long-standing model cannot be oversimplified. Complex problems call for complex solutions.

In Appendix A, "The How-To Guide to Creating Profit" and Appendix B, "Scheduling the Changes" you will be able to choose what business changes should be made, schedule those changes, and prepare for ongoing reevaluation in the future.

No matter what, if a company has been around for some time selling a service and pleasing clients, something "right" has been going on. To help boost the bottom line, it's the "wrong" that needs to be found and fixed. This book is about the fix.

Acknowledgments

If I had been in any other business than the computer field for the last 30 years, I probably would not be able to write this book.

The business changes that have taken place since personal computers hit the market in the early 1980s are nothing short of revolutionary.

Where else but in a computer business would you:

- Invest all of your money in something that you knew would be obsolete in a few months
- Train your staff intently knowing they would need retraining shortly or that they would be leaving to take another job soon
- Sell software that didn't work unless the client paid for repairs
- Sell products where a client needed to prepay for a year's worth of "fixes" so the product would still function
- Write programs where you couldn't possibly, as a human, identify and plan for everything that might go wrong

Yes, it has been an interesting few decades and, just like having "no service" on a cell phone has become an accepted form of annoyance, so too have software bugs, viruses, spam, and all of the other pains of computerland become part of a new normal.

The point is that there has been no standard in this field that hasn't been subject to reinvention.

So, the challenges of earning a living and making a profit in a service-based business, with the most outrageous, newly-conceived, client-unfriendly business models, make the problems of almost any other line of business seem easy to fix.

For this exact reason, I've been able to shed light on many a business profit problem for clients and peers over the years. For those of us in the computer field who have longevity, we have fought many wars and have been "around the block"—nothing has been sacred.

Learning on the job, reinventing the wheel, selling a solution that was supposed to work but didn't, and training clients who were completely untrainable—without things like prepayment and maintenance contracts, there would be no computer field.

Starting with my first client, Jerry Cohen of Williams Real Estate in New York City, and my first official vendor, Bob Davies of SBT Accounting Systems in California, I thank every person who had more wisdom than I had and who helped me to formulate, under those technically trying circumstances, the most reasonable business model that was possible.

There were other early business mentors who I admired, such as Rod Hatcher of TIW in Pennsylvania, who seemed to be born with a perfectly formulated business plan and David Harris of EC Internet in California, who never heard a technical question that he couldn't answer and never saw a programming language that he didn't want to learn. Jeff Childers, a techie from Florida, consulted with me for an hour at a convention and helped me to set up a billing model which has lasted for a decade and a half and which I have passed on to many a struggling business owner. And, there was Susan Sheridan, an original Microsofter, who

moved to the land of marketing and helped all of us computer folk become marketers.

There would have been no business, however, without my husband, Lyle. As a sign of the times, he read every technical book he could find so that he could install the hardware that I didn't want to touch. He cold-called new clients, made me smile even when my programs crashed, and, eventually, threw his accountant's hat away and joined the technical revolution.

Finally, as a computer business owner in the 1990s, the New Jersey Association of Women Business Owners (NJAWBO) set me on the path of spreading the business word, allowing me to volunteer, teach classes, speak at conventions, and mentor new company owners. That has led to the pleasure of working for almost two decades with other business owners, helping them to solve their problems and make a profit. Hence, this book.

Introduction

Despite the difficulties of running a business, many owners of small to mid-sized service-based firms are able to be the masters of their craft, have a long list of repeat clients, and even enjoy a great reputation. What many are missing, however, is a good profit. Where do the CEOs, the founders, the owners of these small to mid-sized firms go to figure out why they are no longer earning what they once earned or, even why their employees are making more money than they are?

Unbelievably, many an entrepreneur will spend an entire business week working to “make payroll” without a single moment’s thought about the bottom line.

With credit crunch and cash flow fears looming, structural business changes geared toward beefing up the net profit never seem to make the top ten on any given day’s “to-do list.”

Does the bottom line profit matter so much? Many a small to mid-sized business owner is a pillar of the community, serving on boards, donating to charity, golfing with clients, partying with employees and their families. What great harm is a little red ink?

Of course, this isn’t a reasonable question and every business owner knows why profits matter. It is the owners’ duty to protect their businesses so that their families and employees are safe, their retirement and children’s college accounts are funded, and at the same time keep a healthy valuation for management for the next generation or attraction of an eventual buyer.

So, if not having respectable profits in one's business is the ailment, where do we look to find the cure? What are the roadblocks that prevent a business from solving its profit problems? Who exactly is in need of help here? And, finally, in a nutshell, how do we fix a broken model?

Profit-making advice in the small to mid-sized market is not an easy find. It's far easier to learn "how to make a great sales presentation" or "how to design a website" than it is to find ways to increase the bottom line and drive profits. Business "How-To" books are usually just that: books on how to do the business at hand. Profit 101 tactics are squeezed between the lines but Profit 201 tactics are rarely spelled out—sophisticated lessons in being lean and mean, making the hard decisions, and raising profitability to Mission Statement level.

And as if finding profit-cures isn't hard enough, the real roadblocks to making change in a privately held small to mid-sized business usually rest in the hands of the owners themselves. After all, who are these owners, these founders, these CEOs? How did they get where they are?

They are entrepreneurs, risk takers, "bosses" who have staked their claim on a certain niche and are proud of their accomplishments. Sometimes the whole family is employed at one of these firms. Every client knows the owner's name and deals with this company for (sometimes) personal reasons.

Technology, however, more than any other factor, has invaded the space of the traditional small to mid-sized service business—buying online, selling online, real time questions, real time answers. The rules of the game have changed—and they have changed quickly.

Seasoned business owners will remember their first computer, the day they first "faxed," and the day they

bought their first “car” phone. However, now, the speed of change necessitates radically modifying not only business tools in place but new purchasing methods, employee behaviors, competitive pricing, and visibility in the marketplace. And that’s just the beginning.

If a company has profit problems even when armed with the most up-to-date tools, then the time-honored business culture that made the company what it is today probably needs adjusting. The owner who has nurtured a firm like a beloved child may be reluctant to see the writing on the wall, or can see the writing but may stubbornly refuse to take a step backward and make the changes that need to be made.

If starting a business once brought out creative juices, changing a business model to meet the demands of a new marketplace—resulting in a more profitable structure—can be exhilarating. But, the boss needs to get on board!

So, what is the profile of a company that needs help in the profit area?

For a new business about to be started, it can be advantageous for a founder to read about profit pitfalls, and try to catch the problem before it begins.

But which business owners who are out there already need to revamp their profit-making formulas?

First of all, an owner with a profitable business may want to stay ahead of the pack, find new profit areas, look for new trends, and stay as lean as can be, maximizing net income wherever possible. Even a company with a healthy bottom line needs to address change constantly, cater to a younger, more technological workforce, and compete with a global, ever-reinventing marketplace.

Another owner owns a long-term business where the model hasn’t changed very much over the years but the net

profit has—in a downward fashion. This owner may have respectable gross sales but, looking toward retirement, sees a business with diminishing profits, longer work hours for the owner, and a valuation that is not attractive to an investor now, and won't be when the need arises. This owner has a valuable list of clients and can perform a great service, but manages a model where all income is absorbed by expenses. This owner has a great deal to gain by implementing some changes that will affect the bottom line.

Maybe another owner isn't so close to retirement but, rather, needs to look at 20 or 30 more years in the workplace. There have been clients; there has been profit but the business is shaky. Whether it can withstand the forces of the economy is questionable, but everything that can be done should be done before giving up the entrepreneurial dream. A lot of work is done by this owner to try to keep clients happy; many times the work is done for free. There's also a lot of hope here in the future—the big jobs that will come from investing now in client relationships; the passionate “hobby” part of the business where a great deal of work is done without any income, purely for pleasure.

Finally, there is the “what am I going to do” business owner. The doors are open but may be closing fast due to dire circumstances. Is there anything to salvage here? There might be. Any service business with a list of clients, a service that meets a need, and an owner with an open ear may find avenues to explore that were previously unknown, or did not even exist in the past.

So, we know we are looking for a better bottom line (either out of necessity or intellectual curiosity). We know it's hard to find sophisticated advice regarding profit generation but, when it is found, we need to overcome any inappropriate owner resistance to effecting necessary

change. And, when all is said and done, no matter what fixes, changes, or enhancements are added to the business culture, pure and simple, net income has to be put in the forefront of the business model. Profit making needs to be a leading factor in every business decision. It needs to be an everyday, real-time effort and not a once-a-year event discussed with the CPA. Just as cash flow and payroll requirements hold steady visibility, profit fever needs to stay in the limelight. Every sale, every paycheck, and every purchase has to be measured with company net profit in mind. Each employee, also, needs to be put on the profit bandwagon, not the expense bandwagon. Processes and methods that are broken need to be fixed and they need to stay fixed. And, this reinvention needs to be ongoing. Twenty-first-century small to mid-sized businesses are fluid, ever-changing models that can't afford to remain static.

Looking at business models that seem, at first glance, to have more differences with your business than similarities might seem like a big waste of time. It can, however, provide just the change of pace and insight into new thinking that you are looking for. After all, you probably know a lot about your direct competitors, and, have long ago addressed missing components in your comparable sales model. But looking at a "business to consumer" company can help a "business to business" company reengineer itself, and understanding a manufacturing model can help your service company.

However your business began, you borrowed ideas, knew what companies you wanted to emulate and which ones you didn't, eventually settling on your own individual image.

Profit-making ideas can be borrowed from all walks of business life. Hearing new thoughts, taking a closer look at a model that you previously ignored and, in general, opening your eyes to new business thinking will go a long

way to solving your profit problems that have crept up over the years.

So, looking for a better profit is all about change—not changing the best parts that a company has grown to offer, but filling in the weak spots.

The business, change and all, needs to continue to perform a great service, satisfy customers, and keep employees happy, but most importantly, this has to be done while making a good profit.