

Backflips are not good for business

Written by Warren Harmer
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A few years ago the world swimming championships were in town, and I was lucky enough to be in the audience for the final of the men's 10m platform diving final. It is the tallest, most challenging diving contest. Wow. Watching those amazing athletes spin, twirl and launch themselves from every orientation was truly inspiring; there were even some perfect scores of 10. Each diver attempted to do more complex dives than his rivals, since the more difficult the dive, the higher the degree of difficulty, the better the overall score. In this competition, taking on more difficult challenges increases the chance of winning.

If only the same rules applied to business: the more difficult the challenges, the higher the chances of succeeding. But it's not. Businesses are not created equally, with even playing fields, the same degree of difficulty and equivalent chances of success. At any given time, the full gamut of factors can be thrown at your businesses: economic headwinds, changes to technology, staff shortages, low profit margins or difficult clients. Small business owners can easily find themselves doing acrobatics to reach their goals, by choice or not.

Have you ever given consideration to the degree of difficulty in your business? Are you doing unnecessary backflips? Let's look at a few examples of higher degrees of difficulty, for no extra rewards.

Degree of difficulty 1: Prices and costs

Profits can so quickly get crunched in price sensitive and competitive markets or sudden increases in costs. My best clients, who usually have new or novel products, have enjoyed gross profit margins north of 70%. Struggling at the other end are businesses with margins south of 25%. One client had their gross margin squeezed from 44% to 28% as clients consolidated and competition intensified. Not only did this strangle profit, but placed extra pressure to keep overheads lean.

To reduce this difficulty needs a long term view and good business planning. In most industries there are new products and services that you could provide with minimum investment or new infrastructure and better margins. Perhaps technology can open new markets, create new channels or reduce costs. Understanding your market and the movements within it, then taking action, can lead to more profit for less work.

Degree of difficulty 2: Slave to the client

We all jump through hoops to keep clients happy, but there are times where excessively

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demanding and difficult clients raise questions of their value to the business. In extreme cases, the extra time erodes profits to the point of loss or unacceptable hourly rates. To a web development client this was a common occurrence, as initial scopes of work were constantly overstepped; the actual hourly rate generated was \$74, when it was priced at \$115.

Stop the backflips in this situation by stopping the clients. Know your numbers and your threshold so you can take action. Gently enforce contract limitations if needed and communicate proactively. Young businesses usually take on any clients but as your client base develops it may be necessary to fire bad clients. By focussing on the easier, better paying clients you can make more by doing less.

Degree of difficulty 3: Tough markets

Some markets are tougher to crack than others. For example, I have worked in the small business market for many years, a market that many big businesses drool over its sheer size. But it's a tough market to crack, that is for sure. Time limitations, cash flow squeezes and overworked business owners do not make the path to growth easy for suppliers.

Understanding the market is core to your score. By offering services that can fit into the particular demands, with lower price, better availability or more flexible and novel offerings you can find a way to break through. Persistence and innovation pays off.

Degree of difficulty 4: Seasonality

Have you ever tried to sell air conditioning in winter? Coats in summer? These are the challenges of seasonality that many businesses face. In most businesses there are annual cycles, even if they are less extreme. Holiday seasons, for example, affect most businesses for better or worse in most cases. In my first business, a seaside restaurant, high season started and ended with daylight savings and trade differed by 400%, which took some serious backflipping to manage year after year.

To win at this game you need to work with the seasons. When the sun shines, make a lot of hay and store it. Know your costs and cut them back when off season starts, which means you need flexibility built into your staffing and supply contracts. Plan ahead and market to alternative clients for the off-season to balance out revenue. In my restaurant, off season marketing focussed on functions, school events, catering and birthday parties to provide enough revenue to soften the landing. My air conditioning client built up their builder clients who needed ongoing work.

There are no prizes for being a hero and having the most difficult business; you will have to tough it out and so will your family. Even if you find yourself working too hard in your business, you are not completely powerless. There are ways to reduce the degree of difficulty, which are not always easy or fast but can give you better reward for a few less acrobatics in the long run.

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Business planner and small business consultant

I am a cultivator of great small businesses. I have a Ph.D in science but fell into the world of small business by accident and discovered my passion. My experience owning and consulting to small businesses now spans over 17 years. I like to solve problems using a scientific approach; looking objectively at businesses to see what is happening and applying first principles. In small business, outcomes reign over theory.

Practical, hands-on advice for small business owners is sorely lacking, since most 'experts' have never owned one. Most business information is targeted to big business and their employees.

My objective is to offer instructive, 'how to' information to make business ownership easier, less stressful and more enjoyable.



Warren Harmer
Chief Business Planner
0414 609 719

businessplancompany.com.au

WarrenHarmer.com