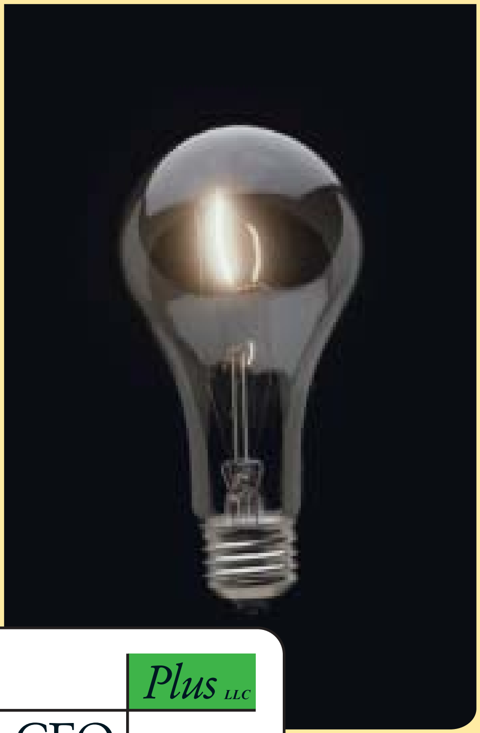
BUSINESS PERFORMANCE
ADVANTAGE

July/August 2002



CFO Plus LLC
Partners In Growth

Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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Do You Know the ONLY Four Ways to Grow Your Business?

Many people think growing a business is a complex process, but it is simpler than most think. In fact, if you're seeking suggestions as to what guidelines to follow here are four that should become your guidepost.

- Increase the number of customers (of the type you want);
- Increase the transaction frequency;
- Increase the transaction or value of "average sale"; and
- Increase the effectiveness of each process in your business.

Okay, this seems easy enough. In fact, it may appear to be too easy, but companies really need only to focus and commit to these functions for optimum success in the area of growth.

Increase the Number of Customers (of the type you want)
Getting business through the door often proves to be the most challenging and expensive aspect of growing a company. It's tempting to assume that you automatically need to seek new business without making sure you've already tapped the business you have. However, finding a brand new customer can cost significantly more – some experts estimate six times as much – than working with the customers you already have. What exactly does this mean? You already have a customer base that is sold on the services you provide. This captured audience is just waiting for you. Some of the best advertising you could ever have is the kind that a satisfied customer will do for you. These customers also provide a higher chance of finding you the type of business you want versus whatever simply walks through the door. If your company is business to business, ask customers for referrals to other companies that operate with a similar mindset. If your company is business to consumer, engage activities that draw new customers from your current customer base.

Increase the Transaction Frequency
Once you have the right type of clients (that means the kind you enjoy working with and those who pay on time), you want to ensure that they not only stay with you, but increase the amount of business they do with you. A one-time only customer may not seem like the best one for you. Yet, if the customer is the perfect fit in the type of business you're looking for, you need only to foster the relationship. Customers will come to you for different reasons. They may have been told about your service from someone else, or found you on their own. The point is that the customer may initiate the relationship, but it's up to you to nurture it and make it grow. When you offer exceptional customer service and let the client know how much they are appreciated, you will create a client that returns again and again.

Increase the Transaction Value, or 'average sale'
Business owners are often passive about the amount they sell to a customer. However, if a customer seeks you out, you have to remember they are looking to you for your expertise. Cross-selling is not only a benefit to you, but to the customer as well. When you bring more value to the customer through multiple services or products you provide them with more opportunity. In turn, you have created a more valuable customer relationship, which is easier and more cost-effective than creating a new one. And, as customers come back more frequently, their average sale often increases.

Increasing price should also be considered, but is sometimes difficult since clients become accustomed to a certain cost. However, when you are able to break down price, volume, fixed costs and variable costs you'll find that increasing your cost means truly applying the correct price to reflect the value of the service or product you offer. Some companies have taken a lesson from fast food restaurants, and have started offering "package" deals. This pushes the customer to a higher price point with the perception of receiving a "discount" on the overall order. This technique may be used in many industries.

Do You Know the ONLY Four Ways to Grow Your Business? (cont.)

It's important to keep in mind that companies can lull into a comfy, cozy state of cost coma. One manufacturer, for instance, had not changed prices in 10 years. By increasing the price of just one product, the company increased profits 11 percent. The average sale is a powerful growth mechanism.

Increase the Effectiveness of Each Process in Your Business
How many of us just jump into work and do it? There may not necessarily be a defined process, but who has the time to figure out if there's a better way of getting things done? The truth is that the time you take to increase your business's efficiencies will have a direct affect on a project's outcome and, ultimately, your profitability.

Business is a group of people carrying out a series of processes. If the processes in place aren't running as smoothly as possible, you can lose a considerable amount of time – and money – on things such as overcompensation for mistakes, inadvertent doubling up of manpower, and troubleshooting problems.

Taking the time to evaluate how business is generated, whether or not the customer service chain is efficient, and where time is lost in the moving of products or delivery of services can provide you with more information for scrapping a system or improving on one that is seeing a significant return on investment.

Performance measurement is the machine that runs a well-performing company. Contact us today to learn more about the four ways to grow your business!

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Compensation Planning: Looking Beyond Money

Our grandparents – and many of our parents as well – went to work every day expecting to be paid for the time they spent on the job. In the "olden" days, compensation planning focused on paying employees for their work and service to the company. If you were a dedicated employee, you may have stayed long enough to get the gold watch at retirement.

Today, our employment landscape is much different – for many reasons. New generations of workers don't stay as long as their parents or grandparents, and constantly seek greener pastures. Literally, to keep anyone under the age of 40 interested in staying, companies must offer more than just pay. Sure, a wage is a necessity, but there is much more to compensation than just the money.

Unfortunately, many companies and organizations sour on new compensation plans when they don't obtain the results they were expecting after implementing a "best-practices" plan, one which takes benchmarks and uses those as best practices. Instead of achieving desired results, their "best practice" ends up as just another ineffective human resources program.

In one ongoing study of best practices, the Saratoga Institute found that best practices more typically occur when a specific design approach is followed, regardless of the plan type or the specific elements of the plan. A plan is likely to become a best practice when it:

- meets the original objective for which it was designed;
- drives desired, positive results relative to company culture and strategic business objectives; and
- addresses the specific needs, business philosophies and operating environment of the implementing organization.

How do you design a plan that talks to more than compensation? Here are ten clear-cut methods to consider:

1. Rewards must be linked to business strategy – why do you come to work? As explained above, employees come for much more than pay. They come to support the company's strategy. Linking rewards to the conjoined strategy emphasize the short- and long-term mission.
2. Explain your plan's objectives – participants must know what is being rewarded and why. When was the last time you met with employees to tell them what their compensation plan was all about?
3. Behaviors motivated by the plan must support the company culture – anyone will tell you that a business' mission and vision are the backbone of any successful venture. Your compensation plan is directly tied into company culture.
4. Relate payouts to business performance and results – gone are the days of across-the-board raises; pay for performance is the norm in today's business cycle.
5. Plan design must adapt to changing business conditions – change is inevitable, and your compensation plan must adapt to its environment – good and bad.
6. All elements of the plan, including expected performance and results, must be clearly communicated and fully understood by participating employees – you're not going to test employees to see how much they know, but you can hold a periodic meetings to discuss plans, even if they haven't changed since the last time you met.
7. Participating employees must be involved in the design process – you wouldn't create a new consulting division without asking employees to be a part of the process, so why should the design of a compensation plan be any different? Solicit feedback; people want to feel as if they are part of the process, and ensuring they understand the plan goes a long way to instill confidence.

Compensation Planning: Looking Beyond Money (cont.)

8. Participants must believe the plan has value – while you don't want the plan to become a mantra, you do want your employees to honestly say their compensation plan is something of value – more than words on paper.
9. All elements of the plan must be regularly reviewed for effectiveness in meeting stated objectives and achieving desired results – like any marketing or sales plan, your compensation plan also must be reviewed on a regular basis to ensure it meets your employees' needs.
10. Consider using annual benefit statements to show employees just how much their total compensation package is worth. Itemize employer health, disability, continuing education, and other contributions. Add these to the employee's total salary to show a total compensation package. This technique may be used as a recruiting tool as well. Top candidates will always be in demand – tip the scale in your favor by showing just how much your company is contributing to their bottom lines.

The overall theme is communications – and companies who regularly communicate the value of their compensation plans will be the ones who successfully keep employees interested for the long haul. Ensure your plan has value by meeting with your performance measurment consultant and discussing these steps.

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Customer Service Doesn't Cut It Anymore

By Roger H. Nunley

Conventional wisdom says an organization must have satisfied customers if it is to survive. But today, organizations are realizing that satisfying customers may not be enough. Recent studies indicate that satisfied customers are not necessarily LOYAL customers and even though customers say they are satisfied, they may still defect to a competitor.

Many organizations use a 1-5 rating system to measure customer satisfaction with 5 indicating the highest level of satisfaction. In most cases, organizations are content with a score of 3 ("satisfied").

But according to a 1994 study reported in the Harvard Business Review, a 3 rating indicates that the customer is "satisfied," but not necessarily "loyal." The article reported that a score from 3.5 to 4.5 indicates that customers are indifferent. Only a score of 4.6 or above indicates a truly loyal customer.

So how does an organization achieve customer loyalty? Is it simply a matter of answering a customer call on the first ring? Offering high speed internet access in every meeting room? Seating only 8 instead of 10 at function tables? Not exactly.

Achieving customer loyalty is an ongoing process, not a single action. An organization must understand what customers want and provide it, because, in the end, the only perspective that matters is the customer's.

So what do customers want?
The Institute has studied the issue and found that customer expectations generally fall into the five dimensions outlined in the SERVQUAL model (according to Parasuraman, A., Zeithaml, V.A., and Berry, L.L. (1988). SERVQUAL: A Multiple Item Scale for Measuring Consumer Perceptions of Service Quality. Journal of Retailing, 64 (Spring): 12-37): Tangibles; Reliability; Responsiveness; Assurance, and Empathy.

Tangibles are the physical aspects of a service experience such as the appearance of the facility and staff, as well as items like communication materials. In short, this is the image that an organization projects. In the hospitality industry, for example, the facility and the staff must be neat, clean and organized in order for the customer experience to be satisfactory. To engender loyalty, however, that physical image must exceed the customer's expectation. Some organizations take steps to create not just a certain physical appearance, but tangible ambiance – selecting a soothing color scheme, installing plush carpets and comfortable furniture. Westin's concept of a "Heavenly Bed" is a prime example of an organization that is working to inspire customer loyalty using the tangible aspects of service quality.

Reliability means performing the promised service dependably and accurately, keeping promises, and doing it right the first time. In the hospitality industry, this can be as simple as honoring the fees quoted for a service and ensuring that the service provided is the service that the customer expects. Are you taking steps to ensure that there are no interruptions in service delivery? Is there a well-staffed reception desk, an informative website, an efficient toll-free number or strategically located information kiosks? When guests need directions or have a question, do they know where to go for an answer? If a first-time guest walked into your facility, would they be able to find their way to their destination? Is directional signage clear and easy to spot? Are employees easy to identify and prepared to answer most guest questions?

Customer Service Doesn't Cut It Anymore (cont.)

Responsiveness refers to the timeliness of service and the willingness to help. The loyalty factor is engaged when an organization responds to a customer's need before he or she even realizes that a need exists, or when an organization goes above and beyond the call of duty in responding to a request.

Several years ago, the Institute held its annual conference at a popular resort in South Florida. Upon our arrival, we realized that we had not shipped any nametag holders for the conference. We asked our contact at the hotel to provide directions to the nearest office supply store. Instead of sending us on our way, she offered to go herself to pick up whatever we needed so we could continue with our conference preparations. She returned from the store with a variety of nametag holders for us to make a selection. We were so impressed with her initiative and responsiveness that we rewarded her service by returning to the resort for our next four events. That small investment of her time was returned with thousands of dollars in revenue for the hotel.

Assurance is the knowledge, courtesy, and professionalism that build a customer's trust. Ensuring that representatives are knowledgeable requires that an organization invest in effective training initiatives. They must be targeted and ongoing. But training alone will not guarantee knowledgeable representatives. Hiring right, paying appropriately, coaching effectively, measuring accurately and rewarding often are critical success factors for developing knowledgeable representatives who can resolve most issues on the spot.

Empathy is the caring, individualized service that makes a customer feel valued. Loyal customers are made when an organization remembers their names and their likes and dislikes. The Ritz-Carlton, for example, has earned numerous customer service awards by creating individual guest profiles and offering personalized services; from remembering a guest's preference in pillows to making certain that their favorite newspaper is delivered daily.

To ensure that these five dimensions of service quality are integrated into your day-to-day operations requires a commitment from management. Exceptional customer service must be incorporated as a primary business goal and a core value of an organization and must be reflected in its policies and procedures. A constant process of performance evaluation is also necessary to ensure that the organization remains customer-focused.

Any organization that understands what its customers want, and then provides it, will be on a fast track to achieving customer loyalty.

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Skip-Level Reviews: The Benefits of 360-Degree Feedback

When was the last time one of your employees told you he or she had an effective performance review? While this may be a rhetorical question, it's a valid one given today's volatile business climate and the need to receive consistent feedback on performance.

Today, a direct manager's or supervisor's review of an employee may, indeed, not be enough to adequately provide the employee with enough information. One of the trends occurring in business is the "skip-level" review. Also known as "360-degree feedback," employees are reviewed by their manager or direct report's manager, employee peers and even subordinates.

There are many benefits to this process. For the individual, perception is reality and the skip-level process helps workers understand how others perceive them. While many may tell each other day-in, day-out how they feel, getting these thoughts on paper in a stylized, confidential process is a completely different matter. The individual also benefits because feedback is essential for learning, and individuals can better manage their own performance and careers.

Maintaining a skip-level review also benefits the "team" by increasing communications among and between team members, and supports the teamwork process by involving everyone in developing the appraisal methodology. Organizations, too, benefit by promoting better career development for employees, improving customer service by having customers contribute to evaluations, and directing the training process.

A national human resources consulting firm quantified the reasons for skip-level reviews. According to a recent survey, HR managers said that 360-degree feedback is being used for management and organizational development (58 percent), performance appraisal (25 percent), supporting strategic implementation and culture change (20 percent), and team development (19 percent).

Naturally, there are a variety of methods to gather data by using paper-based forms, diskettes or other storage, through an electronic network or by interviews. Scoring can be conducted on-site or through central scoring by an external vendor.

One, burning question is the frequency of the review – how often should the review be conducted? While annual performance appraisals usually suffice, skip-level reviews may be done more often. Since employees need time to make the changes proposed on the last set of reviews – and because it takes some time for others to perceive that change has taken place – six-month intervals make sense. This time frame allows people to create change, and then get feedback on their progress so that they can develop next-level goals and action plans. However, some organizations prefer to conduct surveys of just 10 to 15 questions, focusing on a specific topic. These smaller-size reviews are done monthly in conjunction with training on that certain topic.

Next comes the matter of whom should be the reviewer(s). The method in which organizations set the criteria for this important step could make or break the review depending on a variety of circumstances. For example, the length of time the respondent knows the subject is important, as is the amount of contact. You also may want to choose reviewers who understand what the subject does, as well as some who work well with the subject and some who do not.

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Skip-Level Reviews: The Benefits of 360-Degree Feedback (cont.)

After the review is conducted, the subject is the only person who gets a copy of the report. The manager gets group and organizational data, but no individual information. While giving the data could increase accountability and enable the manager to quantifiably track progress, there are a variety of pitfalls to giving the manager a copy of the report. Here are a few examples:

- People will fear the process.
- Feedback comments will not be as constructive.
- Scores may be higher.
- Data can become a weapon, not a development tool.
- The manager may lack the ability to interpret the data appropriately.
- The manager may reprimand the employee for not doing well.

Another consideration in skip-level reviews is whether feedback should be linked to performance appraisals. While skip-level reviews or 360-degree feedback and performance appraisals can be complementary, they should not be linked. If 360 is linked to compensation decisions, it loses its power as a development tool. With compensation as the outcome, individuals quickly will learn how to play the game, a.k.a., "I'll scratch your back if you scratch mine."

If ratings are lower than expected, morale can decrease when the review is linked to performance appraisal. However, when low scores are used purely for development, the scores tend to be viewed as constructive feedback. Be sure that team members are coached on the rating scale so feedback is consistent across the board.

Introducing skip-level reviews to a potentially resistant organization isn't insurmountable. First, start at the top and conduct a pilot. Directly address, up front, the issues that are at the source of the resistance, and focus on the benefits for the individual or group. When possible, use an external consultant to minimize fears of confidentiality and inappropriate data usage.

Are skip-level reviews ever inappropriate? In some cases, yes. For example, if the person receiving feedback is too new to the group or organization, there probably aren't enough respondents who truly understand the full scope of the individual's responsibilities. In addition, during a time of major change like a merger or acquisition, skip-level review may not be very effective because the staff is focused on other, more important, efforts. An environment with a high degree of mistrust is a red flag that also would inhibit the process.

Skip-level reviews or 360-degree feedback can be a cost-effective, measurable method to the appraisal process. Before embarking on any sudden or short-term change to the way appraisals are currently conducted, consult with your performance measurement advisor for his or her feedback.