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June 2008

Doug Hall

Useful Information Resources

Quotes

"Price is what you pay. Value is what you get"

Warren Buffett

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"That which costs little is less valued"

Miguel De Cervantes

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Building Your Library

"Guts & Borrowed Money" by Tom Gillis

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Dear Profit-Center Managers:

Is your profit center more valuable today than it was a year ago? How much more?

The answers depend on who determines the value and what features, benefits, and level of quality are important to them. Value is in the eye of the beholder.

Consider value to be the **difference between benefits and costs.** What are the costs to build and operate the business? Or to prepare the project deliverables? And, how much will be paid for the immediate and long-term benefits of the deliverable? The more valuable the deliverable is to the purchaser, the more they are willing to pay - and the greater the difference between your income and expenses!

In order to be a successful profit-center manager, you have to decide **which features, benefits, and quality in your offerings will be perceived as the most valuable** by the greatest number of buyers. These decisions are the core of your business strategy, your marketing plan, and your choice of managers. Your own success with the firm is judged, to a large extent, by the amount of value you create for the business and your clients.

This month we identify Value Enhancers that help increase the worth of the firm and individual profit centers. Consider which enhancements are present today and which ones you should add or strengthen. In general, any changes you make to internal business processes should increase the value of your operation.

The value you can create is also dependent on how well you anticipate and adapt to external business factors. These include: industry trends, regional business conditions, and the competition. Market intelligence and timing of your initiatives are the tools you rely on to create value from outside influences.

Value enhancement should be an ongoing process. Please call or email me with questions or for additional information. Feel free to use the "Send to a Colleague" tab at the end of this newsletter or just forward the information to other interested profit-center managers.

Doug Hall

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"The Vest-Pocket Guide to Business Ratios" by Michael R Tyran

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"Million Dollar Consulting" by Alan Weiss

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"The Firm of the Future" by Paul Dunn and Ron Baker

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"The 100 Absolutely Unbreakable Laws of Business Success" by Brian Tracy

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"Managing the Professional Service Firm" by David H Maister

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"The Business Owner's Playbook" by The Hartford

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"Rainmaking Made Simple" by Mark Maraia

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Value Enhancers for Your Firm

The following list will help identify the pluses and minuses when considering the value of your profit center. The guide is useful for annual or semi-annual self-audits of the firm's leadership, management, and business development practices. **A YES answer to the statement is a plus for enhancing the value of your profit center.**

1. We are the **go-to firm** for our services and we dominate our market niche in our geographic region or in our field of expertise. We have a good reputation.
2. Our **vision, core values, and work environment** are effective in the hiring and retention of the right employees; in the acquisition and retention of the right clients; and are reflected in our dealings with employees, clients, vendors and agencies.
3. We have **cash in the bank** or line-of-credit to cover 3 to 6 months of operations. Our billing system is efficient. Our **average collection period** is 45 days. We review the sources of cash and uses of cash each month. Internal financial controls and fraud protections are in place.
4. We have shown an average **net profit** (net income / sales) of greater than 7.5% over the past three years. Our overall project-chargeable **utilization** for the profit center exceeds 65%.
5. The profit center's **revenue** has grown 15% to 25% each year for the past 3 years.
6. We have an up-to-date **business plan** showing our revenue and expense forecasts for the next 3 years. Our assumptions about sales and marketing, administration, employee benefits, and financial performance are clearly stated.
7. We look ahead. We have a **labor revenue forecast and cash flow forecast**. We like to have a solid six months of labor backlog. Our sales pipeline is full of new opportunities with existing clients and qualified prospects.
8. Our **leaders and profit-center managers** have well-developed consulting skills. They each have at least 10 years of experience. Our project managers have at least 5 years of experience.
9. We know how our profit-center is **positioned** in the mind of our clients and prospects. We know what differentiates us from the competition. We know our **competitive advantages**.
10. Our **financial ratios** (net profit; quick ratio; equity-to-debt ratio; average collection period) are equal to or better than industry standard. Bankers use these ratios to monitor performance.
11. We pay our bills within 30 days. Our **credit record** is good to excellent.
12. We communicate openly and often with our **clients** to make sure we give and get the feedback we need to keep them satisfied and loyal.
13. We have a set of clean, accurate **financial statements** prepared quarterly or at least semi-annually by a CPA.

14. Required **risk management procedures**, safety and health procedures, and appropriate insurance policies are in place. We have diverse sources of revenue. One client does not provide over 25% of total sales.
15. **Contract terms and conditions** with clients and vendors are current, clear, and fair to both parties. We have accurate, up-to-date copies of these documents.
16. There are **no unresolved** legal, tax, intellectual property, employee or other liability issues.
17. We are in **good standing** with applicable government agencies and offices.
18. If we are a corporation, our **corporate records** are up to date.
19. We regularly keep our **CPA, banker, insurance providers, and attorney** up-to-date with activities and accomplishments.
20. We **price** our services according to **external value**, as perceived and determined by the client, rather than by internal costs.

If you are unclear about whether an action will improve the value of your profit center, ask yourself the following questions:

- Will it increase revenue?
- Will it decrease expenses?
- Will it bring in new clients?
- Will it bring in more money from existing clients?

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