Improving your business performance

Business Link

The Business Link service is a local point of access to all the information, advice and support you need to start, maintain and to grow a business.

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Getting closer to your

Customers are the lifeblood of every small business. No customers, no business. One of the keys to improving your business performance is learning how to win more customers, and how to keep them coming back for more. And that means getting closer to your customers.

Understanding your customers

Why do you need to understand your customers? Because only when you understand your customers can you give them exactly what they want, when they want it, and in the way that they want it. Broadly, you do this by:

- Finding out about your customers' purchasing habits, opinions and preferences
- Profiling individual customers and groups of customers to market more effectively and to increase sales
- Changing the way you run your business to improve customer service.

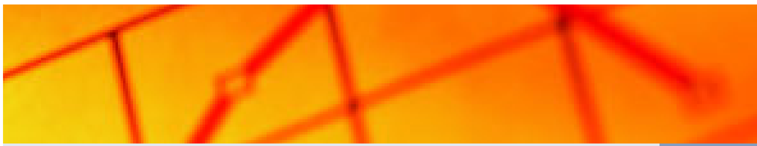
You may say "But I already know my customers inside out", and you might be right. But many small firms assume that if people are buying what they are offering, then they must have a good grasp of what their customers want – and that may simply not be the case. Many small firms have suddenly gone out of business after years of apparently steady trading because a new competitor arrived on the scene, correctly analysed what the customers really wanted (as opposed to what the customers were prepared to put up with), and stole the market.
Even with years of accumulated knowledge,

customers

there's always room for improvement. Customer needs change over time, and technology is making it easier to find out more about customers and make sure that everyone in an organisation can exploit this information.

Think about your own business and ask yourself:

- **How good is the customer service we offer?**
  - Do your staff always have the right information to hand when they speak to your customers?
  - Are customers kept waiting at the counter, or are they put on hold for long periods if they telephone your firm?
  - Are there complaints? If so, how well are they dealt with? And what do you do to try to learn from complaints and prevent them from re-occurring?
  - How quickly are queries answered? How long does it take to get back to a customer if they contact you by fax or email?
- **How good are your sales?**
  - Are you happy with your revenue per customer? How good are you at getting existing customers to buy more from you?
  - Are you happy with your customer acquisition costs?
- **Are your marketing campaigns as successful as they could be?**
  - Do your customer support people have good links with the rest of the business?



The business case

- **Getting close to your customers is the only way to understand what they really want**
- **You can improve your sales, boost customer loyalty, and even cut your costs**
- **If you don't get close to your customers, your competitors might**

  - Do your sales people work closely with the rest of the business to spot opportunities and pinpoint weaknesses?
  - Is everything you know about customers and prospects accessible to all your people?
- **Are your customers really satisfied?**
  - Do you find that you lose old customers as quickly as you gain new ones?
  - Are your customers loyal? Or do you fear that if a competitor made them a better offer, they would desert you at once?
  - Do your customers recommend your product or service to other people?

If the answer to some of these questions is "no", then you should consider how you can make your business more responsive to customer needs.

The benefits of understanding your customers better

The top line is that if you understand your customers better, you will make better profits and stay in business! If you really understand what your customers want, and are able to deliver it to them, then you have a prosperous future ahead of you. Remember, your competitors are trying to get to your customers every day of the week – but if your customers are completely satisfied with what you're offering them, then they won't be tempted.

Other benefits include:

- **Reduced costs and greater efficiency**
  - Your marketing is better targeted, because you know exactly who your potential customers are – no more wasted mailshots to people who aren't really interested in what you're offering
  - No more product lines that fail to sell, or move only slowly through your warehouse – this both increases profits and improves cashflow
  - Improved competitiveness.

- **Your rivals find it harder to win across your customers**
  - Your marketing will be more successful than your competitors' because you know the market better
  - You are able to offer the right product or service in the right way to the right people – and at the right price
  - Improved product or service development
  - Getting close to your customers means that in effect they are doing your product development research for you – they tell you how their needs are going to change in the medium to long term.

- **Improved sales**
  - Your sales people know what customers – and groups of customers – really want. This gives them a head-start in the marketplace
  - Understanding your customers means you know what will tempt them, so you can target them with appropriate offers and know how to cross-sell them more of your products or services.

Learning from your customers

A recurring theme with best practice businesses is not that they have all the answers, but that they recognise the need to keep learning.

Not only are your existing customers a good source of ideas for new products and services, but they can also be used to benchmark your performance against your competitors. If you get to know your customers well enough, they will tell you how you match up to your competitors. The notion of asking customers such searching questions makes many owner/managers uncomfortable. But if your relationship with a customer is close enough, they may tell you of an underlying weakness that, once fixed, may improve your ability to win new business.

While businesses have to be self-motivated, most regard customers as the people who keep them on their toes. Successful businesses see customers' raised expectations as an opportunity – something to drive them on and become more competitive.

So – how do I get closer to my customers?

This varies considerably, depending upon your sector and type of business. For example, a service company may have only a dozen customers, whereas even a small retailer may have many thousands. With a little effort, the service company can get to know all its customers really well – but the retailer can never know all of its customers. Instead, it will have to learn what groups make up its customer base, and then try to understand what each group of customers likes and dislikes about the products it sells and the way it sells them.

There are six broad stages you need to go through to obtain accurate information about your customers and then apply it across your business:

- Collect information about your customers
- Store that information
- Make it usefully accessible to you and your staff
- Analyse customer behaviour
- Use your new-found knowledge to market more effectively
- Improve and enhance the customer experience.

Collecting information

A firm with just a handful of customers can do this fairly easily; the owner/managers simply need to make the effort to go to see their customers regularly, and talk to them about how things are going, and what the customers would like to see improved. It is also often useful to invite your customers to come to your premises and meet the staff they talk to on a day-to-day basis.

The information gathering process is trickier for firms with a large customer base. What you are trying to do here is to identify patterns amongst your customers – what types of people are buying what sorts of products, how much different groups of customers spend, whether people are responding to specific promotions, what types of products seem to produce repeat buying habits, what types of customer seem to keep coming back for more, and so on.

Businesses with a website and online customer service have an advantage here, in that they can ask customers to fill in certain basic details about themselves. They can also create emailed or online customer surveys, which work best when incentivised with a prize draw or simply a discount of the customer's next purchase.

If your business does not operate primarily via the internet, then there are a number of ways you can gather information about your customers:

- Use customer satisfaction surveys, either in-store or (if you have mailing details) by post. Again, these work best when an incentive is applied
- Put together focus groups with representatives from key groups of customers. It may be best to organise these through a specialist research organisation – your Business Link advisor can provide help with this
- Use a dedicated Customer Relations Management (CRM) software package. CRM tools collate customer data, sales patterns and marketing data to create an overall picture of how your customer base operates. There are four main ways of accessing CRM tools:
  - Off-the-shelf software packages are

produced for bigger companies by firms such as Oracle, Navision, SAP, Microsoft Great Plains and Peoplesoft. Small businesses are able to buy cut-down (and cheaper) versions of these packages
- You can also access an outsourced CRM system maintained over the internet by a third-party provider
- You can create your own bespoke system to ensure flexibility and a good match with your own requirements – but be sure you know exactly what you want before you start, and agree firm prices and timetables before you put the programmers to work. Bespoke IT projects have a nasty habit of taking longer and costing more to put together than was ever envisaged at the start!
- There are managed solutions that are a halfway house between a bespoke and an outsourced system, and usually involve the renting of a customised suite of CRM applications.

Talk to your Business Link Advisor for further information on these tools.

Storing information

If you're just dealing with a dozen or so customers, you may need nothing more complicated than a spreadsheet, on which you can record the answers to various questions you put to your customers (ask them the same questions, and you will be able to compare like for like), as well as details such as what type of customer they are, how much they spend with you, whether that amount is increasing or decreasing over time, and so on.

If you have large numbers of customers, you may want to think about storing information on a relational database – a centralised customer database that will allow you to run all your systems from the same source, ensuring that everyone uses the most up-to-date information. The personal and financial information of your customers needs to be held securely to prevent fraud, hacking, accidental deletion, or any infringement of data protection and computer misuse legislation.

Accessing information

For the information gathering exercise to be useful, it needs to be put to work – and not just by you and your fellow managers, but by all your staff.

At its simplest, making information accessible to your staff means making sure all your staff are aware of who your customers are, who works for them (and is likely to be in contact), what work you're currently engaged on with them, and which person within your organisation is able to deal with queries from each of your customers. This information could be stored on an intranet – or a circulated memo to be stuck onto the wall at every workstation. Updates could be circulated via email.

Other options include:
- Investing in caller recognition, so staff can have customer details at their desktops before they even answer the phone
- If appropriate, allowing staff to access financial applications to deal with payment and order status queries
- If your staff deal with customers mainly over the telephone, it may be worth investing in Computer Telephone Integration (CTI) to link your staff directly to customer information stored on a computer. With all systems operating from the same data, it's vital that this information is accurate. To ensure accuracy, clean and update records regularly to remove duplicate entries and if possible let customers update their details online.

Analysing customer behaviour

The information you have gathered should allow you to make a number of analyses of your customer base, using:

- Demographic data – age, gender, address, income
- Behavioural data – what they buy, where they buy it, how they pay
- Psychographic data – beliefs, interests, opinions
- Firmographic data – business and sector demographics.

Many spreadsheet programs have data mining tools that help you spot useful and significant patterns in your data. CRM packages should all offer you sophisticated analysis tools that let you identify trends and personalise special offers.

Marketing more effectively

Your new-found understanding of your customers should help you identify the best prospects for new business, and give you plenty of clues as to the pitches that are most likely to appeal to them.

Many businesses find that a small percentage of their best customers generate a high percentage of their profits. With a better understanding of your customers' needs, desires and self-perception, you can reward and target your most valuable customers. At a simple level, this could be in the form of targeted mailshots or emails. Or, using a CRM system, you could provide automatic cross-selling and up-selling suggestions on your website or to your sales staff.

Improving customer care

Just as a small group of customers are usually the most profitable, a small number of complaining customers often take up a disproportionate amount of staff time. The quicker you can identify problems and resolve them, the more time your staff will have to look after your other customers.

Options for improved customer experience could include:

- A customer extranet or online account handling facility – this could give customers direct access to their own order history, stock levels and details of deliveries
- Some customers could be offered additional functionality – like greater flexibility to tailor and specify their orders
- Automatic notification when warranties or contracts expire, or better deals become available.
- Newsletters tailored to a customer's specific area of interest or exclusive material for your best customers.

Improving your customer service

Keep them coming back again and again

If the product or service you offer is almost identical to that offered by other businesses, customer service could be the differentiating factor. Successful businesses know that customer service is integral to finding, keeping and satisfying customers, and therefore spend a great deal of time and energy developing the right strategy.

The first step for any business is to find out what its customers want and then to deliver it by setting measurable standards for staff to work to. This is an ongoing process – you will need to keep up-to-date with changing needs.

Remember that good customer service spans all your business processes, from dealing promptly and accurately with initial sales enquiries, through processing orders quickly and efficiently, to delivering on time. Take a holistic approach to customer service and you are more likely to benefit.

Evaluate your customer service

Look at the customer service you currently provide so you can gauge where your business is performing well and where there is room for improvement. Make sure you involve staff and customers in the process – they are well placed to give you detailed feedback and new ideas.

Integrate and collaborate

Closer collaboration with your customers can help you plan production and manage stock levels more effectively, and make you much more responsive to customer needs. Such collaboration needs trust, and may well involve investment in new technology, but can impact very positively on your bottom line.

Look at each business process in your company, from product development to delivery. Consider how you can improve customer service in each

area. For example, you could get customer input on product development, or provide customised, easy-to-fill-out order forms on your website.

Orders

Fast, flexible and efficient – does this accurately describe your orders process? How your business handles orders has a major impact on customer service – from encouraging initial interest to prompting repeat business. While several factors – price, quality of product or service, range of goods, stock availability – are vital to achieving sales in the first place, a responsive, fully automated order fulfillment procedure can also play a key part in overall customer satisfaction.

If you have a website, make the most of it. A fully transactional website can bring enormous benefits to almost every business. If you aren't already selling online, reconsider your offering and put it in the context of your overall business strategy. Think about issues like integrating your site with your other business systems, whether you can offer delivery and where to, and who will be responsible for maintaining and updating the site.

Some thoughts about how to go about doing this:

- Look at the role of your website and see whether you could enhance it. Is it fully transactional? Can customers browse for goods, place orders and make payments online? Is your site linked with other facets of your business?

- For easy ordering, make sure that you use shopping cart and card payment software, often available as one package.
- If you are going to take payments online, make sure that you comply with the 1998 Data Protection Act and The Consumer Protection (Distance Selling) Regulations, 2000. Guides to these can be found at sites like www.clickdocs.co.uk
- Enter the types of products you sell into various search engines like Google and Yahoo! Does your site come near the top of the list?
- Consider implementing a user feedback channel so that customers can let you know what they think of the site.

Delivery and logistics

Are you delivering the goods? Delivering what you promised, quickly, relies on seamless interaction between your business processes and the quick movement of goods from creation to the end-customer. Because this is a large part of good customer service, logistics management is receiving growing attention from businesses. Good logistics management aims to speed up product supply, eliminate waste (it is estimated that the elimination of waste could save businesses between 10% and 20% of their total costs) and keep costs low without compromising customer service. It also incorporates checks and damage limitation measures to minimise the cost of day-to-day errors.

Start by thinking about what you deliver and to where by looking at the physical flow of goods:

- Look at your track record on delivery. Do you always deliver the right goods at the right time? How you perform in comparison with your competitors? Is there any room for improvement?
- Can you track where a delivery is at any point in the dispatch process? If so, do you convey this information to your customers?
- Consider outsourcing if delivery is central to your business offering. You can take advantage of third party logistical and distributional muscle, networks and know-how – at a cost that will generally involve operational, rather than capital, expenditure.

Product development

Successful businesses are always looking at ways of improving their product design and development. They recognise that an understanding of their customers' needs, plus an innovative approach, will help to encourage new ideas.

Successful organisations place great importance on innovation as a tangible business asset. By creating an innovative culture where new ideas are encouraged and built upon, you could see an increase in your business's growth and competitiveness. Track down ideas from a wide range of sources, including your customers, your staff and your suppliers. Visit trade fairs and exhibitions to exchange ideas with other firms. Take up offers to visit other businesses, and pick their brains.

Getting your product out there first, or being quickest to react to changing market trends, can have a huge impact on its success:

- Keep an eye on changes in your market. Are customers asking for new features or services? Have any new products become available which could improve your offering?
- Look to other more advanced markets – often trends are emerging in the US up to five years before they arrive in Europe.
- Find out what your competitors are doing. Are they introducing any new services or special offers? How can you compete? Monitor their successes or failures, as you might be able to

Getting closer to your

The quality of its suppliers can make or break a small firm. If you can't get the parts or raw materials you need, when you need them, then you will have disappointed customers on your hands. So, you need to get the best out of your suppliers.

The supply chain

Every business has a network of customers and suppliers that it deals with – usually referred to as a supply chain. Though each supply chain is different, it is usually based around:

- Whom you trade with
- What you produce and how you produce it
- The links and processes that connect you.

Understanding more about your supply chain will help you establish priorities for working more closely with your customers and suppliers. Factors that can affect your supply chain include:

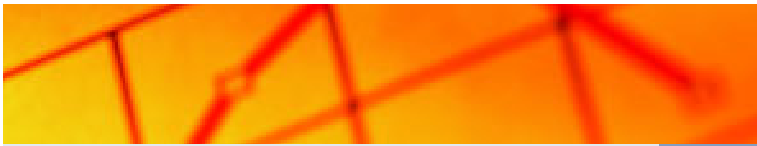
- **Industry**
  The industry you operate in also has an effect on the type of supply chain you operate in. For example, automotive manufacturers tend to have few customers and many suppliers, so are likely to be interested in how to collaborate efficiently with other suppliers. On the other hand, retail companies have lots of customers and fewer suppliers, so they will focus on maintaining ongoing, productive relationships with customers

- **Geography**
  For some businesses, being based near their suppliers is essential as it can help to drive down communication and delivery costs, and reduce lead times. Other businesses are

suppliers

influenced by where their customers are based – although this could mean choosing a location populated by competitors, the improvements in customer service usually outweigh this

- **Size**
  The size and nature of the supply chain has an effect on how you work with your business partners. If the supply chain has few suppliers, then you may need to forge closer business relationships in order to promote focused effort and meet customer needs satisfactorily.



The business case

- **Small businesses depend on their suppliers performing well**
- **You may find ways of cutting your costs as well as your lead times**
- **Good suppliers can help you ease your stock and production issues**

Benefits of closer co-operation

Small firms need their suppliers to perform exactly as expected – on time, with the right quality supplies, at the right price. Any drift away from this optimum performance ends up impacting the small firm, as it will have disappointed customers to deal with.

Small firms face intense competition from all sides; the internet and modern communication methods have ensured that organisations on the other side of the world can compete effectively with UK firms in real time. Today, more than ever, small businesses need to ensure that they can rely upon the suppliers in their supply chain.

Businesses that get closer to their suppliers are more likely to get better performance out of them. There are technological and logistical steps that can be taken, which we will review shortly – but at the heart of getting closer to a key supplier is the need to understand how that supplier works and who its key personnel are, and then build a two-way trust between the two firms. A small firm that will sack a supplier instantly upon being offered a marginal cut in prices is not likely to get the best out of its new supplier – who will (inevitably) reason that it in turn faces being sacked as soon as a better price comes around the corner. If you expect a supplier to be loyal to you and to respond when

you need it to overperform, then you in turn need to show to that supplier that you are worth making the effort for – that there is the prospect of a fruitful long-term relationship.

The first step in establishing this closer relationship is to get to know your supplier. Get to know the people, and to work out what the supplier's strengths and weaknesses are.

Other steps you can take to get closer and achieve benefits include:

- Improving efficiency by integrating your accounting or order processing systems with those of your key suppliers. This will cut down on administration, reduce the possibility of errors creeping in, and will speed up response times to new orders
- Involving your key suppliers in your design processes from the start means you have a better chance of launching new products or services without a hitch
- Standardising business documents, such as orders and invoices, and exchanging them electronically, will again save administration time and thus reduce costs.

Building closer working relationships takes time and effort, so you may want to reduce the number of suppliers you deal with and align yourself more closely with those who are key to your business. Get the most out of good business relationships – negotiate longer payment terms and bulk or cumulative discounts; agree long-term contracts or minimum annual spend in return for lower prices; pool your resources with other businesses to form strategic buying partnerships etc.

Choose the right suppliers

The first stage in sourcing the right suppliers is to work out exactly what you need from them, and what your options are:

- What is the key characteristic you are looking for? Is it speed of turnaround? It is quality? Is it price? If it's a matrix of all of these, which are the most important?
- Is there a wide choice of suppliers to choose from? Or are you limited in your choice?
- Are there suppliers who have innovative technologies that might help you to improve your own products or to offer new services?
- Do you and your managers 'click' with the key managers in the supplier firm? Personal chemistry is vital to any long-term business relationship
- Is the supplier willing to offer you access to its existing customers – any of them, not just a carefully selected handful – to provide references?
- Does the supplier have a stable financial history? (You will need to monitor this over time for all your key suppliers.)

'The right approach to purchasing brings significant rewards including lower prices, better financial control and cost savings thanks to less administration and reduced overheads. When you consider that a 1% cut in costs can have the same impact on profit as a 10% increase in sales, it is easy to see the value of better purchasing'

Taking the pain out of purchasing

Traditionally, purchasing has been a costly and time-consuming exercise – involving contacting multiple suppliers, comparing costs and maintaining ongoing relationships with lots of different companies.

Today it is a very different story – largely thanks to increasing use of the internet to facilitate purchasing. Closer electronic links with suppliers can also help to streamline processes and make trading relationships even more profitable.

The right approach to purchasing brings significant rewards including lower prices, better financial control and cost savings thanks to less administration and reduced overheads. When you consider that a 1% cut in costs can have the same impact on profit as a 10% increase in sales, it is easy to see the value of better purchasing.

It is important to create a purchasing strategy that sets up straightforward rules for purchasing throughout your firm. Those with the responsibility for purchasing need to have clear instructions on how to make purchasing decisions. Must they operate using a list of preferred suppliers only? What is top priority for different types of purchasing? For example, office stationery purchases might be governed by best price, whereas the supply of key raw materials might be prioritised by speed of delivery. Set budget limits, and review the performance of your purchasers over time to ensure they're making the right decisions for your firm.

The Chartered Institute of Purchasing and Supply believes that working more closely with your suppliers can reduce your purchasing costs by up to 10%, and can help you deliver a better and faster service. Forging more electronic links with your suppliers helps to eliminate the need for day-to-day purchasing instructions, progress chasing and stock control. Talk to your key suppliers about their systems, and investigate integrating them more closely with your own.

Getting control of stocks

A critical factor in your supply chain is your capacity to hold stock of purchased goods or raw materials. If you cannot hold much stock, then you will need suppliers that are able to deliver new stock in small quantities at short notice. On the other hand, if you are able to bear the cost of holding significant stocks, this may enable you to save money by buying in bulk, or to take advantage of price fluctuations in the marketplace.

However, how you handle stock can have a massive impact on your customer service and profit margins. Many businesses are now concentrating more on efficient stock management to cut warehousing costs while still being able to meet customer demand. To be able to manage your stock more effectively, you will need to gather accurate information about the volume of orders that your business deals with. This will enable you to assess how much stock to hold, how much to keep in reserve, how often to replenish etc. Perhaps your business would benefit from an industry-specific stock management solution?

Assess your current stock control system

Start by looking at how you currently handle stock control to find out where there are logjams or whether you are holding a lot of stock unnecessarily. Aim to strike the right balance between keeping stock to a minimum and making sure you can respond quickly to demand – even if there is a short supply interruption. The benefit of providing a reliable service outweighs the cost of holding onto a small amount of extra stock.

Achieve this by:

- Using stockturn and hit rate to see if you are getting the balance right – stockturn is your key stock efficiency measure (your total purchase bill for the year, divided by the value of all your stock at year-end). Hit rate is a measure of how often you meet a request for a stock item on time
- Explore solutions that meet your specific business needs and that give you ultimate control over stock levels, re-order quantities and links between stock and storage locations
- Identify seasonal peaks and plan forecasts. For regular supplies, plan when to re-order, and set processes in place to ensure it is as automated as possible.

Getting control of production

For many businesses, there is a lot of scope to smooth and simplify production processes to save time, cut unnecessary costs and become more competitive as a result.

Automating the links between your various production processes means that information can flow more quickly. Once you've identified logjams and established what is causing delays, you can then remove unnecessary obstacles and streamline processes. The result? Faster order fulfillment and increasingly flexible customer service.

The extent to which you can streamline production depends on what you produce. Is production a simple or complex process? Do you build to order or produce in bulk? And do you offer bespoke items? The best businesses strip out waste and inefficiencies while maintaining quality, speed and value.

Involve your staff and suppliers – even your customers – in the process. This should help you gain a fuller picture of your production processes, from initial concept to delivering the right product or service on time and to specification.

Making use of business p

Many small businesses find that they can win new business and accelerate their growth by engaging in productive partnerships with other small businesses. But if the process is to work well for you, you need to go into it with your eyes open.

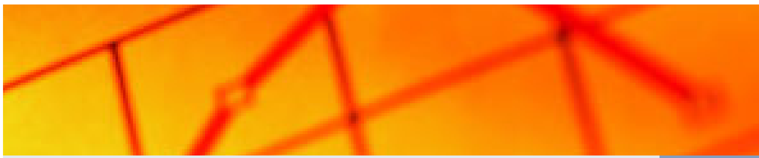
No business is an island...

Every small business is connected to its customers. The vast majority are also connected to suppliers and providers of services. Most of the time, these relationships follow well-charted paths; suppliers supply, and customers buy. Occasionally, however, these apparently straightforward relationships can throw up interesting opportunities, especially when you get to know your customers and suppliers well.

One day, you may realise that you and your supplier (or customer) might be able to do better business by working together than either of you could do by working alone. Or, perhaps, a business engaged in more or less the same line of trade as your own might approach you with a suggestion that you work together for each other's mutual benefit.

Are such approaches an opportunity or a threat? How can you work out what you should do? And, if you decide to enter into some kind of partnership, how can you ensure that you are able to make the most of the relationship without being exploited?

artnerships



The business case

- A good partnership can let small firms boost their sales dramatically or tackle brand-new markets, provided...
- ...they go into the partnership with their eyes open. There are simple ground rules to follow in creating successful partnerships

The potential benefits of partnership

At its simplest, a successful business partnership can mean that you start to win business that you would not have won without the partnership. This can arise because:

- Your partner passes you leads for new business (and, in return, you pass leads on to your partner)
- Each partner can offer the other partner access to or an introduction to new markets
- One partner is able to add value to a product or service that the other partner can then use to create new business
- You and your partner together are able to bid for and win business that neither of you could have won alone – new markets are opened up to you, either in terms of new geographical areas or new market sectors
- By agreeing to collaborate, you and your partner might gain a crucial business advantage – for example, bringing an innovative product to market faster than anybody else.

What kinds of partnership might you consider getting into?

The range of business partnerships you can adopt runs from informal alliances all the way up to formal joint ventures and even mergers. Virtually any partnership, however, can end up delivering business benefits if it's carefully thought-out and if both parties are determined to make it work.

The referring relationship

When two businesses get to know each other very well – usually via a customer/supplier relationship – and respect each other's abilities and professionalism, it may make solid business sense for them to swap leads. For example, an architect may employ a local firm of builders, and conclude after using them several times that they are skilled, complete jobs when they say they will, and charge reasonable rates. Thereafter, the architect may recommend that firm of builders to his or her clients – and, likewise, the building firm (knowing that the architect produces good plans that make sense on the building site) might refer customers who need drawings to the architect.

These simple referring relationships work because both businesses end up getting new customers. They usually remain entirely informal, although sometimes one or both firms may offer the other a modest commission or 'finder's fee' for any work that is referred.

Co-operative partnerships

Sometimes, suppliers and customers may decide that they are more likely to win new business if they pitch for it together. Obviously, this works best when the two firms working together are able to offer a complete service that neither can offer individually. So, for example, a supplier of gymnasium equipment (ABC Workout Ltd) and a firm experienced in fitting out gyms (XYZ Gymfitters Ltd) might offer new leisure clubs a one-stop-shop that provided both a full fitting service and the workout machines needed for the new gym.

Joint venture agreements

Businesses that find it convenient to partner together to win business may decide that they need to put their new relationship onto a formal footing by creating a joint venture, often setting up a new, jointly-owned company to act as a vehicle for the venture. The difference between a joint venture and a co-operative partnership is that a joint venture is governed by a written legal agreement, which sets out each venture partner's responsibilities and duties, provides a disputes resolution procedure, and – often – creates restrictions on the partners' future business activities.

Typically, joint ventures are constructed alongside the partners' own businesses, which are able to carry on in their usual line of trade. So, looking at our two firms working on supplying new gyms, if they decided to form a joint venture the agreement might allow ABC Workout Ltd to go on selling its machines independently, but might prevent it from partnering any firm offering a gym fit-out service except XYZ Gymfitters Ltd. Likewise, although XYZ Gymfitters Ltd would be free to go on fitting out gyms on its own account, it might be restricted from supplying its customers with any workout machines except those provided by ABC Workout Ltd.

Many joint ventures are deliberately constructed with either an exit strategy or sunset clauses in place. The latter usually state that the agreement will automatically lapse after a stated number of years unless the partners wish to renew it, and these clauses usually have detailed instructions on how the profits and assets of the new venture are to be carved up between the partners upon exit.

Mergers

Firms that have partnered successfully sometimes find that the partnership is more valuable to them than their original, standalone businesses. In these circumstances, firms sometimes decide to merge their businesses and thrown in their lot with each other on a permanent basis. Clearly, this is a very big step to take – but for some partnerships, it may make complete sense.

Basic ground rules for partnerships

Look before you leap

Don't rush into partnerships, just as you wouldn't rush into a new contract without being sure that it made good business sense. Owner/managers of small firms tend to be natural enthusiasts, and it is all too easy to get carried away.

Some questions to ask before committing:

- Is it clear to both sides how the partnership will work in practice?
- Can you spot where the new business opportunities will come from?
- Would either partner actually be better off going it alone?
- Will you regret having entered into the partnership in a year or so?
- Are you prepared to put in all the hard work required to set up the partnership and keep it going?

Build up trust, communicate – and achieve buy-in

The most important rule for a business partnership to work well is that there must be trust between the two partners. With small businesses, this usually boils down to two senior people, one in each firm, getting on really well with each other, understanding how the other person's business works, and being prepared to work hard at the relationship. Every partnership goes through rocky periods and moments of stress, and it's important to have a personal relationship that can pull the partnership safely through difficult times. This also means that it is absolutely vital to have good communications between the two partners.

For any partnership to be a success, there has to be buy-in at the very top of each partner organisation. The owner/managers of both firms may not be involved in the day-to-day operating of the partnership, but they have to accept that the partnership is beneficial and worth supporting, or sooner or later it will fall apart. If the partnership is being put together by managers at an operational level, then they must report back to their bosses and ensure they have their full backing before proceeding.

Make the partnership work for everyone

The partnership needs to work well for both partners. If one partner is getting much more out of the relationship than the other, then sooner or later the underdog is going to feel that it is being used – and that, effectively, is the end of the partnership. If at any stage during the partnership the two sides realise that one of them is getting significantly more benefit than the other, then the partners should analyse why this is happening and speedily take steps to correct the imbalance.

Be prepared to call it a day

The partners should explicitly accept right at the outset that this is a partnership for mutual business benefit, and not a permanent marriage. If the partnership stops working well for both sides, then it should be ended. Planning for an eventual separation means that when the parting of the ways does come, it will be cordial and on good terms.

Write it down!

Many partnerships have foundered simply because neither side could remember exactly what it had agreed to do in the heady days when the partnership was first discussed. Once the basic principles behind the partnership have been agreed, confirm it in writing, even if it's only by email.

Of course, for formal partnerships like joint venture agreements it is absolutely vital not just to write everything down, but to get it professionally vetted by a solicitor. He or she will ensure that all eventualities are covered... What if the partnership gets sued? What if one partner firm goes out of business? What if one partner fails to carry out its duties under the agreement? What if one of the partners has had enough and wants to exit?

If you go into the new relationship carefully and with your eyes open, you should find that a partnership can add value to your business and help you achieve better profits and long-term growth.

'For any partnership to be a success, there has to be buy-in at the very top of each partner organisation. The owner/managers of both firms may not be involved in the day-to-day operating of the partnership, but they have to accept that the partnership is beneficial and worth supporting, or sooner or later it will fall apart'

Doing things right first

The success or failure of almost any small business depends to a large degree on the quality of what it does or produces. 'Quality' isn't an abstract management notion – it's what keeps customers coming back for more, and it underpins long-term business success.

What is quality management?

Many owner/managers of small firms instinctively clap their hands over their ears as soon as anybody starts talking to them about 'quality management' – and yet in practice, they are already implementing quality management within their own business, even if they don't think of it in those terms.

At its simplest, quality management is about doing things right first time – and nobody would argue that doing things right the first time is anything but a good idea. Whatever your size and type of organisation, and whatever the business process from design to customer relationships, reducing errors by improving the way things are done can have dramatic benefits.

Many businesses have used quality management to help:

- Provide a clear business focus
- Improve efficiency
- Increase customer satisfaction
- Improve communications
- Improve cashflow and the potential for profit.

time

Five steps to getting control of quality

There are many different ways of approaching quality management and thinking about it – but all of them are basically about taking five simple steps:

Step 1: Get the vision right

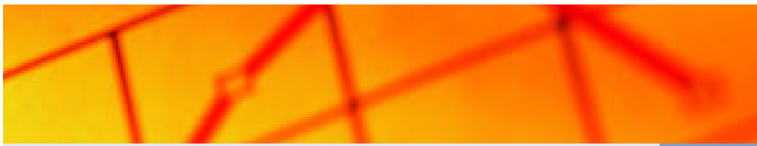
This involves getting a clear understanding of what your business is all about – indeed, why you are in business in the first place – and communicating that understanding effectively to other people.

Step 2: Set objectives and targets

What do your customers really want? And your own staff? And your suppliers? All are crucial to the success of your business, and you need to know what they want so that you can set sensible and meaningful targets and objectives for your business to aim at.

Step 3: Benchmark

This step involves you measuring how well your business is doing, and working out where improvements need to be made.



The business case

- **Who could argue that it makes good business sense to do things right first time? And that is what 'quality management' is actually all about**
- **Putting proper quality management in place will help you identify those factors which are critical to your business success**

Step 4: Assess

Work out which of the processes involved in your business are most important to your success, working out how they could be improved and the benefits that would flow from improvement.

Step 5: Improve!

Once you have improved your processes, you need to ensure that the changes you make are permanent, that they go on delivering the benefits you expected over time, and that you keep monitoring business performance to ensure that – as far as possible – you keep improving things all the time.

Step 1: Get the vision right

Successful businesses tend to be those that have a clear purpose, set goals aimed at achieving that purpose, and establish ways of doing things that help them meet those goals consistently.

A vision is a highly personal thing – it often comes from one person, rather than being the product of a consultation exercise. It's the kind of passionate, vibrant idea that you can enthuse others with. To be truly successful, a vision has to be reflected and communicated in what you do and the way you do it.

Many business leaders decide to capture their vision in a mission statement. In simple terms, a mission statement answers the question: why are we in business? The mission statement for your business should:

- Describe the purpose of your business
- Identify what your business defines as 'success'
- Inform and inspire employees
- Define what success looks like.

Step 2: Set objectives and targets

Once you have a good understanding of what your business is about, you need to set objectives that are linked to your vision and mission. This involves:

- Defining a set of workable objectives
- Balancing financial and non-financial considerations
- Deciding how to track and measure progress against objectives.

Successful business objectives need to be clear, measurable and have a set time frame within which they should be achieved. Your objectives should also cover a range of areas, including:

- **Finance** – for example improving profit, sales or reducing costs or losses
- **Customers** – for example, increasing customer satisfaction, choice, value
- **Internal results** – for example, increasing the number of products developed or speeding up the delivery time to customers
- **Growth, learning and innovation** – for example, increasing access to knowledge sources, developing skills within your organisation, improving access to information.

Step 3: Benchmark

Central to the whole issue of quality management is the idea that you can't improve what you can't measure.

Measurement and data collection is key to improving business performance. Before you try to reshape your business, you need to collect at least some data to get an idea of the overall state of the business.

Some key measurements for benchmarking include:

- **Not Right First Time (NRFT)** – This measures a product's ability to match a specification and is expressed in 'number of defect parts per million'. But it can also be applied to the delivery of services by measuring how satisfied customers are with the service they receive

- **R&D expenditure/Turnover (%)** – This is an indication of the business's investment in the future
- **Marketing expenditure/Turnover (%)** – this is an indication of the business's investment in its marketing activity

Step 4: Assess

Getting things done in your business will inevitably involve many processes. But not every process is of equal importance to the overall success of your business, so you need to understand which ones are critical to helping your business improve.

Critical Success Factors (CSFs) are areas of the business that have to perform well for business targets and objectives to be met. CSFs are normally identified within such areas as production processes, employee and organisational skills, functions, techniques and technologies.

If you don't have a list of CSFs for your business then you should spend some time analysing the relationships between the CSFs and your business processes.

Step 5: Improve!

It is vital to appreciate that you can't change everything all at once. Indeed, in most cases it isn't necessary to change everything about the way you work. Clearly, by identifying your Critical Success Factors you have defined a short-list of the processes you really need to focus on. It is here that you can achieve the greatest benefits by making improvements.

Look at the processes at work for each Critical Success Factor, and analyse which are being done well, and which need to be improved. Decide how difficult and costly in terms of time and money it will be to achieve those improvements – then look at the potential benefits of making the improvements. Is it worth going for the improvement?

Once an improvement has been made, keep monitoring the system to make sure that the benefits you expected to achieve are actually happening.

And – above all – remember that this is a continual process. You can't make a set of improvements and then sit back and relax. As your business changes and the market changes, you will need to keep looking at everything you do and questioning whether your business is still doing things right first time.

Leading your

How do you go about putting all these good ideas into practice? Because, at the end of the day, if you don't, then nobody is going to put them into practice for you. Success – or failure – is in your hands alone.

Best practice in management

You feel it the moment you enter a competitive business; there is a buzz that suggests confidence and success. But how is this buzz achieved? What are the key factors and how can these be emulated in all small businesses in this country?

The previous chapters in this booklet encapsulate 'best practice' thinking about how to go about improving your business – how to give it that buzz and make it exciting to run, and exciting to work for. But there is one factor that is important above all others – and that is the leadership that you provide.

It is widely agreed by experienced observers that successful businesses don't just 'happen' – they are driven into success by the people that run them. This is never truer than when talking about small businesses. In a large corporate, the business leader is separated from the mass of the workforce by layer upon layer of executives, managers, supervisors, foremen, auditors and so on. In a small firm, the owner/manager is usually right there in the thick of the action; every action carried out by the owner/manager can be seen immediately by the staff. Good leadership in a small business has a far more dramatic and immediate effect upon the staff and the business as a whole than in a large corporate.

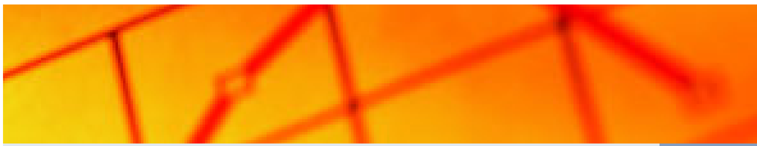
business

What qualities of leadership are important?

People who work in successful businesses – and, by definition, work for successful business leaders – identify a number of typical factors they believe to be relevant. Good business leaders:

- Have values that appeal to both customers and staff
- Focus sharply on customer needs, and operate in ways that let staff take pride in their business and make customers happy to buy from them
- Unlock the potential of their people – developing them, making them feel valued, encouraging them to contribute to the business
- Promote new ideas and ways of working
- Understand that future success depends on constant improvement and innovation
- Know their customers – they are always looking to learn from their customers and trying to anticipate and respond to their changing demands
- Try to exceed their customers' expectations
- Place great emphasis on continually improving the quality of the products and services they provide.

The one thing that all of these best practice themes have in common is that they are about people – how they think, how they communicate and how they work together.



The business case

- **The drive to improve the performance of any business has to come from the top**
- **The smaller the business, the more impact leadership has – for good or for ill**
- **Good leadership will bring you closer to your staff, your suppliers – and your customers**

Vision and leadership

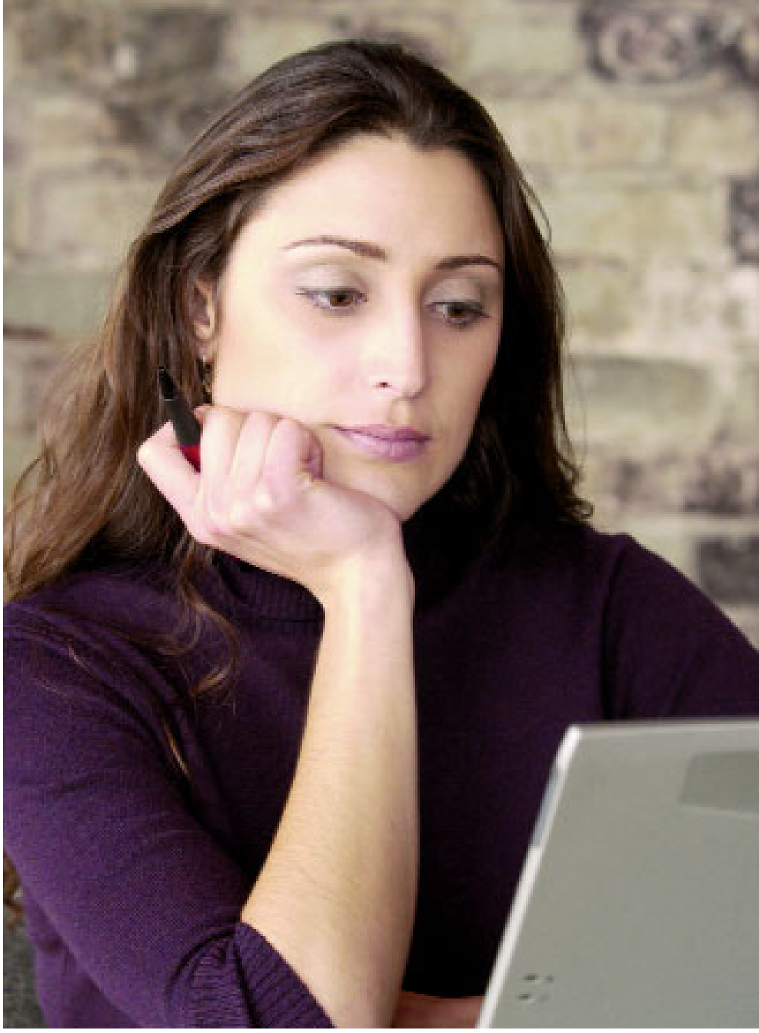
Vision and change both begin at the top, and both can flourish only if they are given continual impetus from the top. The need to improve management and leadership is urgent. According to the International Institute of Management Development, the management efficiency of the UK lags behind that of our major competitors. When questioned, over a third of people working in UK firms admitted to being dissatisfied with the quality of their managers.

From the top, the vision needs to be communicated and shared throughout the business. If you don't change your people, nothing will change, so you have to make sure everyone understands and supports what you are trying to achieve. For many firms, best practice in change management involves putting customer needs at the heart of any change. This gives a clear reason for the changes and makes them much more comprehensible and acceptable to employees. The best businesses also have staff who accept that continuous adaptation to market conditions and customer needs is vital. This means that a successful vision needs to promote not just a set of changes, but the importance of change itself. For example, if your business aims to 'create delighted customers' as a way of 'building a national reputation and consistent profitability', then your vision needs to explain how you are going to do it and how, in 15 years' time, you'll still be doing it.

Learning from customers

A recurring theme with best practice businesses is not that they have all the answers, but that they recognise the need to keep learning. Customers are one obvious source of ideas for new products and services but they can also be used to benchmark other aspects of performance against your competitors. Contact with suppliers, meanwhile, can provide ideas about how to improve business processes, as well as more direct product information. Many businesses welcome visits to their premises, because conducting tours and responding to questions generates feedback and free advice. Similarly, visits to other businesses, even those in different sectors, can be a useful stimulus for lateral thinking.

While small businesses have to be self-motivated, most regard customers as the people who keep them on their toes. Successful businesses see customers' raised expectations as an opportunity – something to drive them on and become more competitive. Many take it for granted that they have to know their customers and their customers' marketplace better than the customers themselves.



Involving and developing staff

There are four aspects to involving and developing staff:

- **Motivation**
  - People who lead successful businesses regularly say that getting the best out of their staff is a priority
  - Motivated staff are far more productive than unmotivated staff. They spot errors and correct them, they suggest ways to improve things, and they are willing to put in the extra effort.
  - Your staff are your ambassadors; it is your staff who have the greatest day-to-day contact with your customers and suppliers. If they are clearly passionate about your business, then that passion is communicated to your customers on a daily basis

- Motivating staff is about making each one of them feel that they are valued and have a degree of autonomy.

- **Development**
  - The best firms are passionate about developing their staff and unlocking their potential
  - Best practice in development and training is about making sure that it is properly targeted – that it has a defined set of objectives, it is measurable and that it is put in the context of improving the service that customers receive
  - Training and development are most effective when employees understand the value that training can have for them professionally.

- **Communication**
  - As well as giving people the tools to do their jobs better, improved communications are a powerful way of helping employees feel valued at work. Successful businesses use a mix of routes – team briefings, newsletters etc – and encourage feedback. The thinking is that the more you encourage communication, the more you can break down the 'them' and 'us' culture.

- **Organisational changes**
  - Traditionally, seniority and increased pay went with length of service. Forward-thinking firms reward experience and knowledge, and promote on the basis of ability and skills, recognising the huge impact keeping talented people loyal can have on the fortunes of a small business.

Innovation and growth

Innovation is no longer regarded as something intangible. The best businesses are measuring and targeting product innovation as they would any other business process. One manufacturer, for example, has a goal of generating 80% of its sales from products that are less than five years old.

Increasingly businesses are also interpreting 'innovation' much more widely. It used to be narrowly associated with research and development, but now it's taken as a measure of the ability of all aspects of a company to improve the way it works. New ideas are encouraged and sought in every area, from production and administration through to customer service and after-sales support. As companies rationalise their own operations, they are also looking to their suppliers for further improvements. Many of the examples of best practice that we've seen have involved using new technologies to share information with suppliers to improve forecasting, cut stock holdings and cut administrative costs. Another major trend we've seen has been a degree of caution about rapid expansion and new ventures. Having taken time to understand their customers and their markets, many businesses are instead opting for organic growth and strategic partnerships.

Improving quality

Small businesses don't have nationally recognised brand names working for them; nor do they have the budgets to engage in costly advertising exercises that spread their name far and wide. The typical small business thrives or dies on the quality of what it produces or does for its customers. In short, quality and the strength of customer service are the small firm's secret weapons.

If you listen to your customers, act on what they say, and deliver them what they want, when they want it, then your customers will sing your praises and recommend you to everybody they talk to. Getting your customers to promote you is the fastest and most reliable way of improving your business performance.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Further information

General advice

Business Link
For practical advice on getting the most out of your business, contact Business Link, the national business advice service. Backed by the DTI, and with a network of highly experienced advisors, Business Link is the first stop for all small businesses – and there is one near to you!
www.businesslink.gov.uk
0845 600 9006

Department of Trade and Industry
General business advice and publications for employers.
www.dti.gov.uk/er

Customer Relationship Management

Institute of Customer Service
The independent professional body for customer service.
www.instituteofcustomerservice.com

Customer Relationship Management (UK) Ltd
Offers a UK-based view on CRM for smaller businesses.
www.crmuk.co.uk

Customer Management Community
An independent resource centre for CRM applications and information.
www.insightexec.com

CRM Daily
Information and news.
www.crm-daily.com

CRM Guru
General CRM topics and issues.
www.crmguru.com

IT Toolbox CRM Knowledge Base
Overview of the IT tools used in CRM.
www.crmassist.com

European Centre for Customer Strategies
Approached CRM from a European perspective.
www.eccs.uk.com

Supply chain and delivery issues

The Chartered Institute of Purchasing & Supply
The Chartered Institute of Purchasing and Supply (CIPS) is an international organisation, based in the UK, serving the purchasing and supply profession.
www.cips.org

The Chartered Institute of Logistics and Transport
The Institute of Logistics and Transport UK (ILT) is the professional body for integrated supply chain management, it aims to encourage policies that are both efficient and sustainable.
www.ciltuk.org.uk

Skills and training

Learning and Skills Council (LSC)
The LSC is responsible for funding and planning education and training for over 16-year-olds in England.
www.lsc.gov.uk

Department for Education and Skills (DfES)
DfES is the government department with overall responsibility for skills and training.
www.dfes.gov.uk/employers

Sector Skills Development Agency (SSDA)
SSDA has been established to drive forward skills and productivity in industry, and to promote effective working between sectors.
www.ssda.org.uk

Investors in People (IIP)
The IIP standard provides a framework to help organisations improve performance through its people.
www.investorsinpeople.co.uk

Innovation

Innovation Group
DTI's Innovation Group's website contains a self-assessment tool for businesses of critical success factors.
www.innovation.gov.uk

Quality management

British Standards Organisation (BSI)
The most authoritative and current site for formal quality standards.
www.bsi-global.com

British Quality Foundation
The British Quality Foundation (BQF) is a not-for-profit membership organisation that promotes business excellence.
www.quality-foundation.co.uk

Better performance and inspirational leadership

Accomplish
www.accomplishonline.co.uk

Best Companies UK
www.bestcompanies.co.uk

Centre for High Performance Development
www.chpd.com

Chartered Management Institute
www.managers.org.uk

FWM LeaderShape
www.fwmleadershape.com

Inspired Leaders Network
www.inspiredleaders.com

Institute of Directors
www.iod.com

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