# How To
# Save Your Company
# In 4 Critical Steps

**Doug O'Bryon**

# "Sometimes by losing a battle you find a new way to win the war."

**- Donald Trump**

There is a predictable and well-known point in the life of a business where it begins to fail. Successful and talented Business Owners begin to work harder and harder, while falling farther and farther behind. Many secretly feel they now hate the very business that brought the recognition and financial success they deserved.

For most Business Owners, failure is almost guaranteed. According to Inc. Magazine, of the roughly 1 million new U.S. small businesses started each year, 80% fail within five years, and 96% fail within ten.

A big reason for the failure is that Business Owners fail to recognize how their business has changed. The business they started out of their basement has steadily grown, and now stands as a legitimate, profitable company employing 20-200 employees.

Their firm plateaus and in spite of working longer and harder, revenue begins to flat-line, while personal frustration significantly increases.

Successful Business Owners grow their company to an awkward phase where they are too big for the systems they currently have AND they are too small to know of or acquire needed resources that will keep them from failing.

Just as human relationships evolve and change over time, so does the relationship between Business Owners and the organizations they've founded. What started as a bootstrapped "nights and weekends" start up, has grown into a full-fledged business, with 20-200 employees committed to overcoming any and every obstacle to help the company succeed.

> Business Owners in this phase of growth frequently complain about exhaustion and the toll it takes on their health, relationships, and finances.

This change is subtle at first, almost unnoticeable, but as the months turn into years, a nagging sense of disconnect and insecurity grows more pronounced. The resources and approaches that helped the firm launch and grow have become an obstacle to growth. Customers are unsatisfied, cash flow is in crisis, and Business Owners fear they have lost control.

Businesses fail because their owners never successfully navigate this predictable yet challenging phase of growth. Some call it "Corporate Adolescence." But no matter what it is called, the results are the same. Their business has entered an awkward phase of company development where nothing fits or feels right. Everything that can possibly go wrong DOES go wrong, and everything that made them and their business successful up to this point seems to have turned against them.

But here’s the good news.

Business Owners who recognize this new phase of business growth significantly increase the survival of their business. The secret to navigating this period of growth is to know that the process IS normal and not because they have done anything wrong. On the contrary, they experiencing this because their company has been a success.

However, doing nothing is not an option. Experience shows that Business Owners who do not take appropriate steps will fail and have to close their business. It’s only a matter of time. A business will not naturally grow out of this phase. Specific steps need to be taken to reach full corporate maturity.

This white paper sheds light on this difficult and complex phase while providing industry best practices on what Business Owners must accomplish to evolve their business in a scalable way that requires less time and less hand-holding by their owners.

If you and your company are experiencing stress and frustration, then this white paper is specifically for you.

## Step One: Design Your Business to Work Without You

When you first launched your firm, the recipe for business was simple – find a client with a problem and provide a high quality solution at a reasonable price. It’s wasn't rocket science, but it worked because you developed an authentic relationship with your clients and provided significant value. In many ways, you became an extension of their firm.

Because there were no layers of corporate hierarchy at this phase, you were very easy to work with. Your corporate phone number rang directly to your personal cell phone or home number, providing clients with immediate access to you whenever they required your expertise.

And because you spent time in both client facing roles selling your solutions, as well as in operational roles ensuring fulfillment, you were able to accurately estimate what you could promise and deliver without sacrificing quality or missing deadlines.

But as your business grew, being an active participant in every role became unsustainable. In spite of your best efforts, you began spending less time in several parts of your business. You may have spent less time in front of customers which made you vulnerable to subtle changes in the marketplace. Or you may have spent less time on the delivery end, jeopardizing the balance between making and keeping promises to clients.

It is at this point that your customer satisfaction will begin to decline significantly (whether you know it or not) and you will begin to feel you are no longer in control. It’s only a matter of time before something blows up - either in your company or in your personal life.

You will rescue yourself and your company when you begin working *on* your business instead of *in* your business. In very practical terms it means putting work and effort into creating systems that deliver goods and services as you yourself would deliver them. You must actively systematize the company in a way that purposeful avoids routine interaction on your part.

In doing so, your company will deliver a value proposition without your interaction. This will make your company more responsive to clients, restore the competitive advantage of your original company, and lay the groundwork for growing a much larger organization.

## Step Two: Align and Hire Employees Into Their Optimal Roles

One of the hardest and most emotional transformations you must go through is to recognize that past hiring decisions are now creating a problem. As your company grew, you hired staff as best as you could. Many, if not most, of those early hires have become loyal employees with a sense of camaraderie and commitment to you and your company.

However, many were hired at the expense of ideal qualifications. And for those who were not, the business may have grown so that they are no longer the ideal employee for their particular role. And to make matters worse, many have been given ego-boosting titles that no longer reflect their true value and role in the company.

The shift that must take place is to transition from a loyalty-based culture to one of accountability and execution. Because things needed to get done, you and every other business owner probably overlooked weaknesses in favor of loyalty to you and the company. This was NOT the wrong decision at the time. But now it can seriously jeopardize your business.

> "I hire people brighter than me and then I get out of their way."
>
> - Lee Iacocca

Two things need to be done. First, professional managers with proven leadership experience need to be hired. They should be hired from larger organizations because they know how a larger, successful business is supposed to operate.

Their experience will help avoid preventable mistakes as the company shifts away from your day-to-day, hands-on interaction. Furthermore, as they solve problems they will instinctively build scalable business processes that will reduce risk as the company grows.

Second, you and your new management team must implement tools and processes that objectively evaluate individual contributions. Placing employees in roles that utilize their strengths is crucial. This will naturally decrease stress as changes occur in the company and tell them in an important way that you understand them.

But it's this step that can be the most emotional. Many loyal employees will need to be placed in roles that will feel like a demotion to them. And, in fact, many will need to be demoted. But for others it will come as a relief. After all, they have been bearing some of the weight of your company's growth without knowing it. Just as you have.

The benefits of successfully getting through this step are important for you both professionally and personally. It will allow you to strengthen your company by hiring talent in areas where you are weak. And most importantly, it enables you to delegate with confidence. You can shift from "doing" to "designing" and concentrate on what you do best and enjoy most.

When you get through this step you will feel as though you have regained your freedom. The tyranny of countless, daily, heads-down tactical decisions are now made by your competent and experienced management team.

## Step Three: Update Your Business Model

With employees in their optimal roles and a new management team in place, it's time to take a look at your business model. There are three important components that need to be examined and possibly updated:

- SWOT analysis
- Growth model
- Unique Selling Proposition

Let's discuss each of these.

SWOT Analysis

A SWOT Analysis looks at the strengths, weaknesses, opportunities, and threats in your business. You may have done a SWOT analysis if you came from a large corporation or someone on your new management team should be familiar with the process.

Doing a SWOT Analysis requires a sense of history and an acute observation of current trends. With this in mind, the following bullet points will guide you and your team as you do your analysis.

When you are determining your strengths, begin by answering the following questions:

- What advantages do you and your company have?
- What does your company do better than your competitors?
- What unique or low cost resources do you have that your competitors don't?
- What do your clients see as your strengths?
- What things indicate you got the sell before your client buys?
- What is your Unique Selling Proposition (USP)?

Here are questions to identify your weaknesses:

- What do you *know* you should improve?
- What does *your gut* say you should improve?
- What do you try to avoid?
- What do your clients see as your weaknesses?
- What causes your company to lose a sell?

A SWOT Analysis is an important first step for new management teams.

Here are questions to identify opportunities in the market:

- What opportunities seem obvious right now?
- What macroeconomic trends are occurring right now?
- What does a typical stock and business cycle indicate about the future?
- How is technology impacting your clients?
- What government regulations and laws are impacting your clients?
- What demographic changes are occurring?

Finally, answer these questions to uncover threats to your business:

- What obstacles continually impede your business?
- What are your competitors doing? How are they succeeding and how are they failing?
- How are standards *or* perceptions of standards changing?
- Will new technologies threaten your company's profits?
- Do you have liquidity or other cash flow problems?

## Growth Model

Growth for almost every business comes down to two main ideas. Are you getting more customers and can those customers pay for more customers. In general, you need to track four main metrics:

- Long Term Value (LTV): the amount of money a new client spends over a specified time period.
- Cost Per Acquisition (CPA): the amount of advertising dollars to acquire a new client.
- Growth Rate (GR): The number of new customers you get in a time period.
- Churn Rate (CR): The number of clients lost during a time period.

The first two metrics measure whether your current customers can pay for the acquisition of new customers. For new businesses a good rule of thumb for calculating LTV is to measure the amount of money a new client spends in the first  90 days of being your client. For more mature businesses like yours, LTV should be calculated over a 2-3 year period of time. Clearly, when LTV-CPA is negative you are losing money. When it is positive you are making money and can stay in business.

To grow revenues significantly you want to increase LTV and decrease CPA. Upsells, cross-sells, and resells are the best and easiest ways to grow revenues quickly. The cost to sell to current customers can be significantly less than CPA. Decreasing CPA to increase revenues requires tighter integration between marketing and sales as well as knowing what channels are driving marketing ROI.

The second two metrics measure how "sticky" your clients are to your product. Ideally, you want to get more new clients than leave your business during a year. So GR-CR should be positive and, of course, the bigger the better. If your churn rate is larger than your growth rate you will eventually find you have no clients.

Tracking revenue and number of clients doesn't tell the whole story. LTV, CPA, GR, and CR will indicate whether you can get new customers and keep them.

Knowledge of these two numbers is important because they tell you a lot about your business.

For example, let's say that you continually have the same number of clients. If both GR and CR are large numbers it says that you are an expert at getting new clients, but you fail to keep them. Determining why clients leave and getting them to stay is your path to growth.

Similarly, if GR and CR are small numbers, you do a poor job getting new clients, but when you do they love you and stay with you. Improving your marketing and sales is the your path to growth in this scenario.

## Unique Selling Proposition

Your company's Unique Selling Proposition (USP) is important for attracting clients and relaying a consistent message about your value to them. For many Business Owners, they started their business without one and for many others, their USP was more of a generic elevator pitch. However, not having a well-thought-out USP can become a hindrance to growth.

So what is it?

Your company's unique selling proposition tells your future clients why you are unique and what being unique gives to them. It's important because all communication with your future clients should be driven off of and filtered by your USP. And it's this consistency of your message that will be convincing and attractive to them.

A great example is Domino's Pizza. Their USP was that they would bring a pizza to your door in 30 minutes or less. And it was guaranteed so you got it for free if they didn't get it there on time. No other pizza company dared do what Domino's did. They were truly unique.

So how do you develop a good USP?

First and foremost there are two rules you need to start with. First, there is no script, formula, or recipe for developing your USP. Some broad guidelines maybe, but developing one is not a mechanical process. Second, developing a good USP may require you to change how and with whom you do business. The idea is to fit your business into the market and not force it onto the market. Give your clients what they need by adjusting your business and USP accordingly.

Developing your company's USP has a few guidelines:

- Keep in mind what is appealing to your clients.
- Keep in mind the results of your SWOT Analysis.
- Give it a personality.
- Point to things like speed, guarantees, and big promises that you can deliver.
- Think about what will start a conversation.
- Look at great USPs to help spark some ideas.

Developing a USP is time consuming and difficult, but, as Domino's Pizza has proven, getting it right can turn a small business into a large and highly respected corporation.

## Step Four: Become Attractive to Capital

This step is one of the hardest to explain, but it's importance to long term growth and survival can't be overstated. A Business Owner's relationship with money needs to make a significant shift. The shift is from going out and finding capital to becoming attractive to capital.

To begin we must review the relationship between interest rates and the inherent risk of your company.

The interest rate on a loan or bond is made up of three components. The first is a *risk free rate*. The United States government is assumed to have a risk free rate. When individuals loan money to the government it is assumed that the money is guaranteed to be paid back. In other words, there is no risk that the government will default on its obligation to pay back the money it borrowed. Let's denote this risk free rate as RF.

No bank or lending institution believes that a business has a 0% *probability of default*. After all, they are not able to as easily collect revenue as the United States government is.

When you apply for a loan a bank will assign to you and your company a probability of default. This is more art than science, but a bank will make historical comparisons to similar companies to determine your probability of default. Let's denote this as PD for probability of default.

> When you systematically decrease your company's risk, the capital you need to grow and survive adverse business conditions will be there when you need it.

Third, if you do default, you will have assets that can be liquidated to mitigate the default. The idea is well-known. If someone defaults on a home loan, then the bank can seize the house, sell it and recover some percentage of their loss. This is oftentimes called a *loss given default* and is denoted by LGD.

When your company requests a loan or goes into the bond market for capital, the market will assign an interest rate for you to borrow money. This interest rate (denoted by IR) has the following formula: $IR = RF + PD*LGD$. In other words, this interest rate has built into it the perceived risk of loss should you default.

When a bank, the bond market, or any other investor looks at your business they will be thinking two things. First, **they will associate the probability of default with steps 1 through 3 in this white paper**. They will look to your management team and business model to determine how much risk of default is in your business. Second, **they will associate your current assets with your loss given default**. It's your current assets that will mitigate any losses should you default.

Astute holders of capital know the difference between companies looking for capital to stay afloat and those who want capital to grow a scalable, low risk business. They will be attracted to you because you have purposefully lowered your company's risk of default and loss. This will give you a significant advantage over your competition.

So the point is clear. Change your relationship with money by following steps 1 through 3 and retain more earnings to decrease your risk profile.

Then watch the capital come flying in.

## Conclusions

You are not alone. The changes you and your business are experiencing now are a natural symptom of *successful* growth. You should be proud of that. But you and your business have to change.

You must shift your focus to building systems and teams and away from the day-to-day management of your company. Bring in talent and empower them to make decisions on your behalf. By stepping away you can make more strategic decisions about your company and significantly improve your quality of life.

## About Doug O'Bryon

As an Economist and MBA with extensive start up experience, Doug identifies corporate weaknesses and turns them into sustainable strengths. Doug works with Business Owners to identify systemic problems quickly and puts them on the path to a more secure, updated business structure that grows with less effort and less stress. Doug's proven solutions attract capital, minimize failure, and create harmony between Business Owners and their company.

Call Doug at **443-421-0167** if you're worried about the future of your company.