

Seven Principles for Sustainable Business Profitability



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Winning Minds
Solutions For Next Level Growth

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2014

The purpose of any organization is to enhance the value to all stakeholders. The stakeholders can be customers, employees, suppliers, financial institutions, Government, and statutory regulation bodies, etc. Even though the value expectations of each stakeholder are different from others, it can be met only when the business is creating SURPLUS in the form of PROFIT. The key challenge for business is to generate profit in a sustainable manner irrespective of external factors like competition, macroeconomic condition, supply demand balance etc.

Making a good profit in a growing economy, less competitive environment is relatively easier than during a recession and competitive environment.

In today's free trading world, competition and economic turbulence cannot be avoided .During the recession, most of the companies are either facing decreasing profit trends or making a loss.

One of the research surveys found that out approximately 10 % of the companies flourished after a slowdown, doing better on key financial performance than they had before slowdown and outperforming competition in their industry on

business profitability. That is smart business management. Smart Business people or organization uses to manage the recession or competition with a decent profit margin and in fact some business converting the economy recession to their advantage and comes out with extraordinary performance after the recession.

The key challenge for business is to generate profit in a sustainable manner irrespective of external factors like competition, macroeconomic condition, supply demand balance etc.

While big companies are able to manage any adverse economic climate, the most affected business segment is SMALL and MEDIUM businesses. The reason could be their business management process is not robust enough to handle adverse situation. Irrespective of the economic environment and competition, it is possible to make SUSTAINED PROFIT if the business head or leadership team conducts the business in line with the following seven principles.

- **Drive business with numbers**
- **Communicate business target to team**
- **Delegate and Review key performance indicators (KPI)**
- **Keep the cost structure lean**
- **Invest on People**
- **Focus on big picture & be flexible**
- **Process mindset**

Principle 1: Drive business with numbers

The famous management guru Peter F Drucker said “What is measured improves” .You cannot manage what you do not measure .In business, any outcome can be quantified and measured .For example, you can measure your entire year effort in terms of sales achieved or the profits achieved .Setting a business goal with numbers brings the following benefits.

- You are aware of what exactly you want
- It drives your behavior and action
- You can always measure your performance against the target set at any point of time

We have observed that that almost all business owner or leadership team have the top line and bottom-line target for the business every year .But that alone does not drive the organizational action

to achieve the result .You need to have target measurements for all the supporting activities like manufacturing, purchase, quality, service, new developments, sales and marketing .If you have goals for each functions with clear quantification in line with your top line and bottom-line, it will bring more focus down the line in the organization.

Once you start look at your entire organizational performance in terms of measurement, you become aware of the direction it is going and you can able to take action at the earliest.

One of our client organization , the top management had ambitious top line and bottom-line target, but they had been missing the targets every year .One of the management process lacunae was that they did not measure the functional effectiveness with quantifiable numbers in line with top and bottom line target. For example, they had top line growth measurement target and one of the key supporting functions was manufacturing which did not have any target measurement. One of the manufacturing effectiveness measurement can be daily production output for each customer .Unless manufacturing effectiveness is measured on a daily basis on production output performance, there is less probability of achieving the business top line growth. Similarly, one of the measures for achieving the profit is measuring how the business manages the expenses. If the business does not measure the expenses, say, manufacturing conversion cost, it may not able to manage the profitability.

The point is that it is not only sufficient to have measure at top line and bottom-line and you need to have measurable across the functions, across the activities. Once you start to look at your entire organizational performance in terms of measurement, you become aware of the direction it is going and you can able to take action at the earliest.

Principal 2: Communicate business target to team

Communication to all stakeholders is very vital to the business profitability .It may look strange or soft issue, but from our experience with small and medium business houses, we have found that lack of communication or poor communication process within and outside the organization affects the daily deliverables .

When we refer the term communication, it ranges from sharing business targets to the routine day-to-day sharing of key information within a team. We have witnessed in most of the SME's the day to day functional information is held up with a few people and never transmitted to relevant people. Any held up information or delayed communication only create confusion, speculation and in turn low work performance.

Most of the SME's Business owners are not communicating their goals, business aspiration to their

second level and down the level. In addition, top management is not showing enough interest or effort to communicate the business challenges, past performances etc to team. One of the reasons could be their inner fear about sharing the goals or not having awareness about the power of shared goals. The advantage of shared goal and challenges is that it will bring the possibility of achieving faster than if they do not. The benefits of having regular, systematic communication process are as follows

Depending on the organizational size and structure, communication process need to be structurally designed at each level .That can be regular meeting forums, reviews and reporting.

1. It brings top and first line people together and it increases bond
2. When people are involved, engagement increases.
3. There is scope of idea generation to meet the business challenges
4. Regular communication with external stakeholders will improve the relationship and the opportunity to keep updated with the external environment

Depending on the organizational size and structure , communication process need to be structurally designed at each level .That can be regular meeting forums, reviews and reporting .Management should also ensure the communication process through regular, systematic reviews, suggestion scheme, cross-functional activities, personal touch etc. ...

Even though the communication process seems to be soft factor, absence or improper communication process costs the organization major loss on profitability .Once this process is in place and adhered at all levels in the organization, it brings many benefits as discussed above.

Principle 3: Delegate and Review Key Performance Indicators (KPI)

In most of SME business, the business owner or top management team will be doing all the work even though they have a second level support. The reasons could be lack of delegation, the tendency of doing all by self. This attitude will affect the growth and the engagement of people in the environment will be less .Even some management delegates the responsibility to down the level, but they will be lacking on monitoring the progress with key performance indicators. Both delegation and tracking people performance through KPI reviews should go hand in hand .Delegating responsibility without measurement or measurement tracking without people ownership does not help the organization to achieve business goals. As we have discussed in principle 1 on driving the business with numbers, each function, activities, and person in the organization must be measured with key indicators. Management must review the key performance indicators (KPI) against the target.

As we said in Principle 2 , through the effective communication process , those KPI 's can be reviewed .It is common observation in most of the organization , meetings will be proceeding for hours without any focused targets and direction, the reason could be the lack of KPI's .In the absence of measured KPI and delegation , meetings becomes one way communication .

The benefits of tracking and reviewing KPI's

- It provides the status of the organizational performance at any point of time
- Brings people together on common goals and enhances engagement
- Allows the management to take counteraction on time to bring back the performance

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Principle 4: Keep the cost structure lean

One of the key reasons, the business struggles with decreasing business, profitability or loss, its inability to keep the cost lean. Lean cost structure means that incurring the expenses that are essential required and eliminating unnecessary cost elements or low return expenses. Each expense in the organization must have a reasonable rate of returns. Waste or unnecessary expenses make the cost structure very fat and overall product cost becomes uncompetitive in the market especially in the buyer's market.

Approaches to keep the cost structure lean as follows.

1. Track the each expense
2. Get convinced about each expense and its return on investment
3. Set the cost efficiency target for each cost element
4. Continuously look for waste elimination

Waste or unnecessary expenses make the cost structure very fat and overall product cost becomes uncompetitive in the market.

One of the trap most of the small and medium business slips is an increasing overheads due to asset acquisition and utilization. From our experience with hundreds of business owners, they are very enthusiastic in going for expansion when they see the light of opportunities. When there is indication for new business or incremental volume, the tendency of business owners is to add the capacity even at the cost of borrowing. While it may be logical to go for investment when opportunity comes in, but the

hidden fact that the existing equipments or facilities are not even effectively utilized 85 % as a rule of thumb for capacity utilization in manufacturing industries. Without effectively utilizing the current asset and adding new assets with the same efficiency loss, the business overhead would become fat. When the business environment is flourishing, the cost can be absorbed, but if the business is in recession or even the competition is aggressive on pricing , your business cost structure will not be attractive in the market place .You will be losing the opportunity as well your internal cost will go up . So next time, when you think about investment in capacity or facility, think twice, ensure that you are effectively utilizing the existing asset.

Principle 5: Invest on People

One of the highest return on investment is investing in people. Competition can copy your technology, process, cost structure, marketing strategy and it cannot copy your organizational culture. The positive, winning culture is cultivated only for people working through the organization. Investing in people consists of four components viz

1. Recruit right people for the position at best cost
2. Develop the people competency on technical , managerial and behavioral skill
3. Engage them through aspirational organizational targets
4. Empower them for extraordinary performance

It is common in many of small, medium business to recruit people of any background just to fill the short-term need. This creates imbalance in organizational requirement and people capability which will affect business profitability .While recruiting people, do the double check that job requirements match with person 's potential ,past performance to deliver the result .Also, do the homework on pay with reference to job responsibility , delivery requirements and the person capability . Enhance your standard of expectation from people and your affordability to better pay to attract the best talents.

Most of the SME's owners have the wrong belief that providing training and education make the people to leave the organization for a better job opportunity. Remember that if you are not spending your energy,, money, time to develop your people on technical up gradation, managerial skill development and positive

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behavioral aspects, people anyhow stay in the organization and deliver the low performance .It is known fact that in existing educational system, you cannot get the people as per organizational requirement and you need to invest on the development, nurture people skill towards the growth of the organization.

One of the research findings on people engagement reveals that people likes challenging environment and looks for new learning's from work .People leaves the organization when they feel that there is less scope for learning and less challenging environment even though the pay and perks are relatively better .Engage your team through shared organizational aspirational goal and empower each one to do their job with freedom and accountability.

Compared to any physical assets, only human asset is not depreciating as years go by and this is the only asset brings more returns on investment and profitability to business .Invest on it...!

*The positive winning culture
is cultivated only through people
working for the organization.*

Principle 6: Focus on big picture & be flexible

Most of the small , medium business remains in the same category for a longer duration due to the leader's mindset and their focus on daily routine management .As business owners are pride about their core skill competency and they enjoy to spend their most of the time in micro management .Managing business is all about balancing all aspects of marketing , development , manufacturing ,people ,sales and finance management . As business owners, you must overview all aspects of business management and ensure that you are taking the organization to next level with your big picture perspective rather than behaving as functional experts and staying back on the growth path.

Simple rule to remember that LEARN TO UNLEARN and do not forget that the micro management, which brought you to this level may not guarantee you for next level growth. Hence, focus on business development, exploring new opportunities, people development, and finance management rather than managing your core functional expertise.

Also, be flexible and open enough to accept the latest trends in technology, marketing techniques, customer's expectation, manufacturing, and quality assurance systems. Change your management practices in line with market expectation rather than only cherishing on legacy, which may not guarantee profitability and growth. Valuing legacy with futuristic thinking makes your business fit.

Managing business is all about balancing all aspects of marketing, development, sales, manufacturing, people, and finance.

Principle 7: Process mindset:

While the organization is small, it is manageable with SOME HOW mentality. But it is difficult to manage all the cross functional deliverables without PROCESS BASED APPROACH while organization is emerging into big. Even in small organization for sustaining the profitability, consistency of process is essential. The process can be manufacturing, customer quality, internal quality assurance and control, recruitment, development, order fulfillment etc.

Establishing standard processes, educating the people on the process, ensuring process adherence are the prime responsibility of business owners for achieving sustainable profitability and taking the organization to next level growth.

Some business owners even use to argue that

process and system is affordable for big businesses only as if it is a fancy element of business. Please remember that because of the process and system adherence only, business becomes BIG and not the other way round.

Bringing process excellence approach may take time and energy, but the result is significant and enables you to think on principle 6, big picture thinking, and really taking your business to next level growth...!

Bringing process excellence approach may take time and energy, but the result is significant and enables you to think on Next level Growth.

Life is all about balanced growth and best wishes to grow to Next Level...!

-Ganesh Babu