

# SME Business toolkit

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# SWOT Analysis

SWOT analysis looks at your strengths, weaknesses, opportunities, and threats that your business faces. By focusing on the key factors affecting your business, now and in the future, a SWOT analysis provides a clear basis for examining your business performance and prospects.

## **This briefing outlines:**

Typical strengths, weaknesses, opportunities and threats, and how to identify them. How to use SWOT analysis to drive your business forward.

## **1. Self-analysis**

Use SWOT analysis as part of a regular process of reviewing your business performance. You may also want to carry out a SWOT analysis in preparation for raising finance or before bringing in consultants to review your business.

### 1.1 Decide who to involve

- Key participants are likely to include the Managing Director and Heads of Department
- Involving others will give a fuller picture and help to gain their commitment to the process
- Find out what customers think using a customer satisfaction survey
- Consider bringing in sympathetic outsiders who know your business and market (e.g customers and suppliers)
- Many businesses find a consultant most useful for their first SWOT analysis

### 1.2 Brainstorm the issues

Ask everyone to identify any strengths or weaknesses they feel the business has, and any opportunities or threats they think the business faces

- Encourage participants to make suggestions without trying to judge how important the issue is
- Concentrate especially on identifying weaknesses and threats
- Be aware that lack of honesty is a common problem

For example, most people find it easier to identify strengths and opportunities, particularly if the performance of key people (including yourself) is one of the weaknesses

- You may want to use checklists to prompt further suggestions (See 4, 3, 2 and 5)
- Organise related ideas into groups
- Recording suggestions on Post-it notes or cards that can be moved around and rearranged makes this easy

### 1.3 Evaluate the significance of the issues that have been identified.

To help you, use relevant data from your own and similar businesses.

- Update your conclusions from any previous SWOT analysis. For example, a strength may no longer exist (e.g if last year's cutting edge product is now obsolete).
- Assess whether your strengths (or weaknesses) give your business a significant competitive advantage (or disadvantage)
- For example, your strong research and development programme is useless unless you have the resources to exploit the results.
- Do not be surprised if certain factors crop up as both strength and a weakness

### 1.4 Create a simple, clear action plan.

There is no point holding regular SWOT analyses if they do not result in action.

- Set out what will be done to address weaknesses, capitalise on opportunities and deal with threats

This includes the steps to be taken, the personnel who will be involved, the timeframes and the budget.

- Involve key personnel in drawing up the action plan to get their commitment

### 1.5 Keep the SWOT analysis and action plan to hand for review before important decisions. For example, as a reminder of what you should be looking for when recruiting a new employee.

#### **Putting it in context**

Too often, a SWOT analysis is based on unrealistic and unfounded assumptions. To maximise the effectiveness of the process, find out as much about your market as possible and justify conclusions with relevant data.

Get in-house information from your business records and personnel. For example, ask sales people what they know about market facts and figures.

Get data on your competitors.

Read company reports, trade magazines and industry research carried out by relevant trade organizations.

Do your own market research. See Research for your marketing.

Consider using specialist consultants to supply comparative data on businesses similar to your own.

Compare both strengths and weaknesses by benchmarking key areas with those in other businesses.

## 2. Strengths

Your strengths are usually easy to identify, through your continuing dialogue with customers and suppliers. Your records (e.g sales) will also help to indicate areas where you are particularly strong (e.g rising sales for a particular product).

For most businesses, strengths will fall into four distinct categories.

2.1 Sound finances may give you advantages over your competitors.

Important factors might include:

- Positive cash flow
- Growing turnover and profitability
- Skilled financial management, good credit control and few bad debts
- A strong balance sheet
- Access to extensive credit, a strong credit rating, and a good relationship with the bank and other sources of finance

2.2 Marketing may be the key to your success.

For example, your business may enjoy:

- Market leadership in a profitable niche
- A good reputation and a strong brand name
- An established customer base. A strong product range. Effective research and development, use of design and innovation

- A skilled sales force
- Thorough after sales service
- Protected intellectual property (eg registered designs, patented products)

2.3 Management and personnel skills and systems may provide equally important underpinnings for success.

These may include factors such as:

- Management strength in depth
- The ability to make quick decisions
- Skilled employees, successful recruitment, and effective training and development
- Good motivation and morale
- Efficient administration

2.4 Strengths in production may include the right premises and plant, and good sources of materials or subassemblies.

You may benefit from:

- Modern, low-cost production facilities
- Spare production capacity
- A good location
- Effective purchasing and good relationships with suppliers

Be aware that strengths are not always what they seem. Strengths may imply weaknesses (for example, market leaders are often complacent and bureaucratic) and often imply threats (for example, your star salesman may be a strength - until he resigns).

### 3. Weaknesses

Your weaknesses are often known but ignored. A SWOT analysis should be the starting point for tackling underperformance in your business (see 6.2).

3.1 Poor financial management may result in situations where:

- Insufficient funds are available for investment in new plant or product development
- All available security, including personal assets and guarantees, is already pledged for existing borrowings
- Poor credit control leads to unpredictable cash flow.

3.2 Lack of marketing focus may lead to:

- Unresponsive attitudes to customer requirements
- A limited or outdated product range
- Complacency and a failure to innovate.
- Over-reliance on a few customers

3.3 Management and personnel weaknesses are often hard to recognize, except with hindsight. Familiar examples are:

- Failure to delegate and train successors
- Expertise and control locked up in a few key personnel
- Inability to take outside advice.
- High staff turnover

3.4 Inefficient production, premises and plant can undermine any business, however hard people work.

Typical problems include:

- Poor location and shabby premises.
- Outdated equipment, high cost production and low productivity
- Long leases tying the business to unsuitable premises or equipment
- Inefficient processes

### 4. Opportunities

External changes provide opportunities that well managed businesses can turn to their advantage.

4.1 Changes involving organisations and individuals which directly affect your business may open up completely new possibilities. For example:

- Deterioration in a competitor's performance, or the insolvency of a competitor
- Improved access to potential new customers and markets (e.g overseas)
- Increased sales to existing customers, or new leads gained through them
- The development of new distribution channels (e.g the Internet)
- Improved supply arrangements, such as just-in-time supply or outsourcing non-core activities
- The opportunity to recruit a key employee from a competitor

- The introduction of financial backers who are keen to fund expansion

4.2 The broader business environment may shift in your favour. This may be caused by:

- Political, legislative or regulatory change. For example, a change in legislation that requires customers to purchase a product
- Economic trends  
For example, falling interest rates reducing the cost of capital
- Social developments. For example, demographic changes or changing consumer requirements leading to an increase in demand for your products
- New technology. For example, new materials, processes and information technology

## 5. Threats

Threats can be minor or can have the potential to destroy the business.

5.1 Again, changes involving organisations and individuals that directly affect your business can have far-reaching effects. For example:

- Improved competitive products or the emergence of new competitors
- Loss of a significant customer.
- Creeping over-reliance on one distributor or group of distributors

- Failure of suppliers to meet quality requirements
- Price rises from suppliers
- A tighter labour market, leading to difficulty in recruiting
- Key personnel leaving, perhaps with trade secrets
- Lenders reducing credit lines or increasing charges
- A rent review threatening to increase costs, or the expiry of a lease
- Legal action (e.g being sued by a customer)

5.2 The broader business environment may alter to your disadvantage. This may be the result of:

- Political, legislative or regulatory change. For example, new regulation increasing your costs or requiring product redesign.
- Economic trends. For example, lower exchange rates reducing your income from overseas.
- Social developments. For example, consumer demands for 'environmentally-friendly' products.
- New technology. For example, technology that makes your products obsolete or gives competitors an advantage

Collect data on opportunities and threats as part of your market research.

## 6. Action

The results of SWOT analysis - and the action needed - will be different for every business.

### 6.1 Capitalise on opportunities that play to your strengths.

Opportunities that match your strengths may prompt you to pursue a strategy of aggressive expansion. The SWOT analysis may also suggest other strategic options. For example:

- Diversifying away from areas of significant threat to more promising opportunities
- Focusing on turning around weaknesses in areas of significant opportunity (see 6.2)
- Taking defensive measures in areas of threat where you are weak (see 6.3)

### 6.2 Address your weaknesses.

- Decide which weaknesses need to be addressed as a priority
- Other weaknesses must be acknowledged and respected until time and resources allow a solution
- Some weaknesses can be turned into strengths or opportunities. For example, it might be possible to turn a shortage of production capacity into scarcity value for your product

- Some weaknesses have a clear solution. For example, financial weakness might be solved by raising further funds and management shortcomings by recruiting new personnel
- Some weaknesses will take time and money to address. For example, you may need to start a programme of improvements through training, or quality management

### 6.3 Protect yourself against threats. For example:

- Build relationships with suppliers and customers
- Foster good employee relations
- Ensure you have clear and reasonable contracts with suppliers, customers and employees
- Take out insurance cover against obvious disasters (SABB Takaful)
- Draw up realistic contingency plans to cope with potential crises
- Introduce the right types of service contracts for key personnel
- Invest in legal protection for your intellectual property
- Take advantage of low fixed interest rates to move your overdraft to long-term loans

Successful businesses focus on capturing market niches and creating 'barriers to entry' to reduce potential competition.

# Writing a Business Plan

Every management team should know where it is taking the business, and how it is going to get there. This is the purpose of the business plan.

This briefing outlines the key issues to consider when putting together a 'typical' business plan. Depending on the scope of your plan, you may need to omit or combine certain sections.

## The briefing covers:

- The reasons for a business plan
- The required emphasis for a plan
- The structure of a plan
- The content of a plan

## 1 Purpose of the plan

Be clear about what the business plan needs to achieve.

1.1 A primary aim of any business plan is to set out the strategy and action plan for the business for the next one to three years (sometimes five years).

- It explains your objectives and how you will achieve them
- By involving your employees in the complete planning process, you continue to build up a successful, committed team
- Priorities are identified  
Non-priorities are discarded, saving precious time
- Once written the plan is a benchmark for the performance of the business

The act of writing the plan helps you crystallise and focus ideas, and identify your priorities.

1.2 Sometimes the plan is aimed at people outside your business.

- For example when you are:
- Raising bank or equity finance
- Disposing of a business
- Attracting new senior management. Attracting business partners, such as distributors and agents.

In this situation, the plan needs to 'sell' the business.

The plan may need to be tailored to the target audience. For example, your Bank Manager.

Specific issues such as the personal track records of the directors may need to be addressed. Ask the intended recipient first.

## 2. Content of the plan

Base the plan on detailed information where possible. But do not include all the detail in the plan. Leave the detail for operational or marketing plans.

2.1 Keep the plan short.

- Focus on what the reader needs to know
- Cut out any waffle
- Put any substantial information, such as market research, in an appendix

Detailed business plans are often quickly shelved, because they are difficult to use on an ongoing basis.

2.2 Base your business plan on reality or it may be counter-productive.

- Over-optimistic sales forecasts can lead to increased overheads followed by a cash flow crisis and drastic cost-cutting
- Be realistic, even if you are selling the business to a third party. (See 1.2.)

Financiers, business partners and employees will see through overoptimistic plans that ignore weaknesses or threats. Management credibility can be damaged.

2.3 Make the plan professional.

- Put a cover on it
- Include a contents page, with page and section numbering
- Start with an executive summary  
This summaries the key points, starting with the purpose of the business plan
- Use charts, if relevant

2.4 Even if the plan is for internal use only, write it as if an outsider was the reader.

- Include company or product literature as an appendix.
- Give details about the history and current status of the business

Show the plan to friends and expert advisers and ask for comments. Which parts did they not understand?

The main sections of a typical business plan are outlined in 3-9 below.

### 3. Business and products

3.1 Explain the history of the business.

- When did it start trading and what progress has it made to date?
- Who owned the business originally?
- What is the current ownership structure?

3.2 Describe what your product or service is. Avoid technical jargon if possible.

- In general, what makes it different?
- What benefits does it offer? What are its disadvantages?
- What are the planned developments?

### 4. Market and competition

4.1 Define the market in which you sell.

Focus on the segments of the market in which you compete.

- How large is each market segment?
- What is your market share?
- What are the important trends, such as market growth or changing tastes?
- Explain the reasons behind the trend
- What are the key drivers affecting each important market segment?  
For example, ageing populations for nursing care
- What is the outlook for those drivers and the market?

4.2 Describe the nature and distribution of existing customers.

- Do they fit the profile of the chosen market segment? If not, why not?
- Is there a heavy concentration of sales around one or two large customers?

4.3 Outline the principal competition.

- What are the competing products or services? Who supplies them?
- What are the advantages and disadvantages compared to your own? For example, price, quality, distribution
- Why will customers buy your product or service instead?

## 5. Marketing and sales

In this section of the plan, you usually address these five questions.

5.1 Where do you position your product or service in the market place?

- Is it high quality and high price?
- Is it marketed as a specialist product due to a particular feature?
- What unique selling features does it have?
- Which of these features are you going to concentrate on?

5.2 What is your pricing policy?

- Explain how price-sensitive your products are
- Look at each product or market segment in turn
- Identify where you make your profits and where there is scope to increase margins or sales
- Set your pricing accordingly

5.3 How do you promote your product or service?

Each market segment will have one or two optimum methods. For example, Direct Marketing, Advertising or PR.

- If you are considering using a new method, start on a small scale
- A failed investment in marketing can be costly

5.4 Through what channels do you reach your end user? For example, one manufacturer of kitchenware might reach the customer via a wholesaler and then a variety of retail chains. Another might use mail order, or sell 'off the page through advertisements.

- Compare your current channels with the alternatives
- Note the distribution channels used by your competitors
- Look at the positive and negative trends in your chosen distribution channel

5.5 How do you do your selling? Analyse the cost efficiency of each of your selling methods. For example, telesales, a direct sales force, through an agent or over the Internet.

Include all the hidden costs of the direct sales force, such as management time.

## 6. Management and personnel

6.1 Set out the structure and key skills of the management team and the staff. Identify any areas of deficiency, and your plans to cover this weakness.

- Explain your recruitment and training plan, including timescales and costs

6.2 Analyse the workforce in terms of total numbers and by department. Compare the efficiency ratios with competitors, or with similar industries.

- Useful figures might be sales or profit per employee, average salaries, employee retention rates and measures of productivity

6.3 Be realistic about the commitment and motivation of the workforce. Consider how you would survive the loss of a key worker.

Note any unusual upward pressure on remuneration. Spell out any plans to improve or maintain motivation.

## 7. Operations

Analyse the capacity and efficiency of your operations, and the planned improvements.

7.1 What premises does the business have?

- What are the long-term commitments to property?
- What are the advantages and disadvantages of the present location? Should the business move or expand its premises?

7.2 What production facilities are there and how is production organised?

- How modern is the equipment?
- What is the capacity of the current facilities compared with existing and forecast demand?

7.3 What management information systems are in place?

- Are they reliable?
- Can they cater for any proposed expansion?

A financier would be very concerned if management information systems were inadequate. Management of a business is always limited by the quality of the information available.

Information technology (IT) is a key strength (or weakness) of almost any business these days. The reliability of your IT and the development of IT systems to help your business are usually important issues.

Identify any quality or regulatory standards that the business must conform.

### **Driving your business forward**

Start by identifying what makes you better than the competition. Think also about what the key ingredients of your future success will be and how you will strengthen your position in the market.

Then establish your overall business aims - where you realistically intend to be in three years time.

Next, decide on half a dozen objectives, each of which will make a significant difference to the future of your business. Define clear targets for these - so that you know exactly what you want to achieve, by when.

### **Many businesses think in terms of:**

- Income - more sales, better margins
- Customers - new customers, higher levels of customer satisfaction. Products
- Improving existing products, launching new ones. Human resources
- Recruiting new employees, developing new skills

The next stage is to work out how you will reach these targets, by considering each aspect of your business in turn and creating a step-by-step action plan for it.

## **8. Financial performance**

Your financial forecasts translate what you have said about your business (see 3-7) into numbers.

8.1 Set out the historical financial information for the last three to five years, if available.

- Break total sales figures down into component parts. For example, sales of different types of product or to different types of customers
- Show the gross margin for each component of sales. List what costs are included as direct costs for each component
- Show the movement in the key working capital items of stock, trade debtors and creditors
- Use ratios such as stock turnover (in months), debtors period (in days), and creditors period (in days)
- Highlight any major capital expenditure made in the period.
- Provide an up-to-date balance sheet, and a profit and loss account

Explain the reasons for the movements in profitability, working capital and cash flow. Compare them with industry norms.

8.2 Provide forecasts for the next three (or even five) years.

- The sophistication of your forecasts should reflect the sophistication of your business. A small business may only need profit and loss, sales and cash flow statements. A more complex asset-based business - or one with complex working capital requirements - will need balance sheet forecasts as well
- Use the same format as for the historical information, in order to aid comparisons
- Clearly state the assumptions behind the forecasts. These should tie in with statements in the rest of the plan.  
For example, if the plan states that the market is becoming more competitive, and then profit margins should probably be falling.

Look at the overall trends of the historical and forecast numbers. Are they believable? Do the forecasts make allowance for the possibility of problems and delays?

8.3 If you are raising finance, use the cash flow forecast to predict your cash requirements.

- Add a contingency element on to the funding requirement shown in the forecast. (This is often 10 to 20 per cent.) Consider what the midmonth peaks might be

- Include the likely interest or dividend costs of any new finance.
- Carry out sensitivity tests on the cash required by reducing key items, such as sales or margin. Note the outcomes
- State why the cash is required. For example, to fund an increase in working capital or capital expenditure

## 9. SWOT analysis

9.1 Set out a one-page analysis of strengths, weaknesses, opportunities and threats.

- Strengths might include brand name, quality of product, or management
- Weaknesses might be lack of finance, or dependency on a few customers
- Opportunities might be increasing demand or a competitor going bust.
- Threats might be a downturn in the economy or a new competitor

9.2 Be honest about your weaknesses and the threats you face.

- Spell out mitigating circumstances and the defensive actions you are taking

# Innovation

In a world of change and competition, innovating is not a luxury, but an essential. All businesses need to innovate, though it may take any number of forms, from the steady refinement of established products to the leap in the dark when an untried idea is launched.

Whether introducing new technology, getting people to work in new ways or creating new products, you must innovate to survive.

## This briefing covers:

- The opportunities for innovation
- Where to get new ideas
- How to make your business innovative

## 1. Opportunities

Whether you are innovating incrementally or developing new products or services, there are always opportunities.

There are three main approaches to consider.

- 1.1 Improve existing processes (see.5).  
For example, can you change the way you make your product and produce exactly the same thing for a lower price?
- 1.2 Improve your existing product.
  - Could you repackage it?
  - Could you re-size it?
  - Can you discover new uses for it?
  - Are some people using it in ways it was not designed for? You may be able to modify it or make a second product, optimised for this purpose

- Can you introduce the product to new user groups who do not know about it?
- Can you achieve the same (or better) benefits for a lower manufactured cost, by understanding more precisely why and how your customers use your product?

## 1.3 Create an entirely new situation with quantum leap innovation.

With a wholly new product or service, you can make innovation itself a key selling point (see 6).

## 2. Planning the future

Your business needs a vision of where it is going.

### 2.1 Know the market sector you ought to be in.

- Recognise the opportunities, or demand, for change in the markets you serve  
For example, many travel agents have been forced to change because of the Internet.
- Should you focus on the area where your business is strongest and abandon others?
- Could you take advantage of market opportunities by entering into a strategic partnership with another business? For example, a carpet fitting firm might develop a preferential working relationship with a local department store

2.2 Know what type of products or services you will offer.

- Do you need to re-develop existing products or services or introduce completely new ones?
- Will employees need training to provide your new products or services?
- What resources will you need?

2.3 What changes to your business processes will a new product or service involve?

- Identify which parts of your business work most efficiently. Could methods used there be put to work in other areas?
- If you are launching a new product or service, what aspects of your business processes will be affected?
- You may need a new marketing approach. For example, using email mail shots to promote your online legal service

2.4 Outline your vision in your business plan.

- Break down longer-term goals into specific numerical targets and short-term aims
- A long-term goal might be achieving SAR3m turnover and national distribution. This might break down into an interim target of SAR1.2m in sales and full coverage of the south and west of SAUDI ARABIA within 15 months

- Keep your goals challenging and SMART (specific, measurable, agreed, realistic, and time-limited)

### 3. External inspiration

Be market-led, or, better still, marketinspired (so that you can sometimes produce things the market does not yet know are possible).

3.1 Find out about existing and potential customers.

- Log customers' comments, complaints and requests. Seek feedback at meetings, through surveys or by printing a feedback form on bills or receipts
- Find out why you lose customers to your competitors. For example, look for trends in quotations that do not convert into orders, or talk with competitors' customers at industry events and shows

3.2 Know your business environment. If you can see change coming, you can often turn it from a threat into an opportunity.

- Be alert to environmental pressures, new regulations, economic factors, social trends and

3.3 know your competitors. What products or services do they offer?

3.4 Communicate with your suppliers and show that you value their opinions.

3.5 Identify the people you respect as experts in your field and find opportunities to talk to them. For example, at industry shows and conferences.

- Read what they write in the trade press

3.6 Investigate opportunities for benchmarking aspects of your business performance against other companies in your own field - or even in completely different industries.

#### 4. Internal inspiration

No-one knows more about your business than the people who work inside it.

4.1 Talk to your employees.

- Spend time walking around your business with your eyes and ears open
- Use your appraisal process and suggestion schemes to canvass employee ideas
- Hold regular team meetings to gather feedback and ideas
- Keep hierarchies flat. Short chains of command make it easier for ideas to be heard

4.2 Improve your product by identifying faults.

4.3 Make full use of internal benchmarking.

Are there good ideas in one part of the business that can be used elsewhere?

4.4 Encourage experiments and be prepared to take risks.

- Allocate new projects to teams. Give employees new responsibilities as part of their team roles.
- Choose performance measures that will help you monitor each project
- Recognise employee-led innovations, both privately, in your appraisal process and publicly, using notice boards or newsletters.
- Start a system of rewards for individuals or teams who bring business success through innovation

#### Obstacles to Innovation

Recognise that day-to-day tasks are always likely to seem more urgent than innovation. Make innovation a priority, by setting aside time and money for it.

Combat insecurity and resistance to change through better communication. Gain recognition of the need for innovation by discussing the consequences of not taking action. Increase the amount of contact time between you and your employees. Physically raise the profile of innovation in the business. Set up notice boards, upgrade your suggestions scheme and circulate an ideas sheet or bulletin. Deal with cynicism about 'yet another management fad' by involving employees in the processes of innovation. People are less cynical about proposals incorporating ideas they have suggested.

Show employees what is in it for them.

If they can see the opportunity to make their own working environment better and more fun, they are more likely to contribute suggestions.

## 5. Improving processes

5.1 Analyze which of your processes have the most impact on your customers.

- What could be done more efficiently?
- What could be done that would increase customer satisfaction?
- How could cost-effective improvements be made?

5.2 New products or services may require technical support in the form of new machinery or systems. For example, a set of frequently asked questions (and answers) on your website may cut the customer support workload.

5.3 Employees must be involved in developing new processes, both to get the right answers and to ensure they are motivated to make the changes work.

5.4 Parts of your business may need to be restructured to meet your innovating goals.

Setting up cross-functional teams is one of the best ways of making innovation happen.

5.5 Rate your suppliers and meet regularly to monitor the improvement of processes.

6. Product development  
The distinction between products and services can often be an excuse for sloppy thinking in service sector companies. Whether you are developing metal fasteners or an Internet estate agency, whatever you dream up, shape, bring to market and ultimately sell can be regarded as a product.

6.1 Do not make a move until research indicates there is a market for your new product.

- Avoid situations where you have to invent the market as well as the product

6.2 Analyze the resources available to you within your business and outside

- Almost all product development these days requires you to set up and manage some sort of 'virtual team', involving outsiders as well as your own employees. For example, consultants, lawyers, suppliers or customers.
- Put together a team with a mix of talents

6.3 Map out the critical path for developing the product and bringing it to market.

- Check everything, to make sure you are on the right track at the specification stage
- Without the right brief, there is a danger of racing ahead up blind alleys

6.4 If there are aspects of your innovation that are truly novel, protect your intellectual property with a patent, design registration or registered trade mark.

7. Nurturing innovation Commitment is essential. Half-hearted innovation will fail, causing wasteful disruption and lowering workplace morale.

7.1 Train your managers to lead innovation. Encouraging innovation in your business may mean redefining the relationships between managers and employees.

- Make sure your managers are not afraid to fail

7.2 Involve your employees in the development of your business.

- Share your vision of where you are heading
- Make sure business goals are regularly communicated in team meetings
- Develop your employees' skills and ambitions

7.3 Plan for innovation and set new challenges.

- Build your long-term goals into your business plan. Set and review numerical targets and milestones
- Track key performance indicators (e.g profits, sales and ROI) to monitor progress
- Set a target for sales of products less than three years old
- Focus on the areas of your business where new ideas can make the most difference

7.4 Review your situation regularly.

- If circumstances change, you may need to change policies. For example, sourcing products overseas may need rethinking if the currency value

### **How do you do it?**

Set aside time for innovation workshops, with cross-functional teams from all parts of the business.

Do not let status or position in the company get in the way of good ideas. Discussion in workshops should be open, informal and not too tightly targeted. Consider using an experienced outside facilitator to run the sessions.

Try exploding complex issues into small pieces. This lets people get to work on solving more manageable, clearly defined problems.

Lead people away from thinking innovation must mean radical, big bang changes. A lot of small improvements can add up to a big change for the better - and usually with far less risk.

Show clear evidence that the pursuit of innovation is seen as a continuing process. Emphasise that innovation does not just happen in the workshops. Experience shows that the 48 hours after a workshop has ended can be a very productive period. Make sure ideas that surface during this time are not ignored till the next workshop.

# Creating a valuable business

Hundreds of everyday actions affect the performance of your business, whether you are negotiating a sale, recruiting a new employee or complaining to a supplier. Much of the working day is spent reacting to circumstances, making small decisions that have a limited, short-term impact.

In contrast, creating a valuable business is about taking strategic decisions that have a lasting effect. Unsurprisingly, this is easier said than done. But for many directors, particularly those who own a share of the business, it must be the ultimate aim.

## This briefing outlines:

- How growth and security contribute to a valuable business
- The major opportunities for creating and increasing value
- How to protect the value of your business

## 1. What is value?

1.1 A valuable business typically offers growth, profitability and security.

- Growth and security are covered in 2 and 3
- Profitability is covered in the separate briefing

Banks are more likely to support a business with a positive cash flow.

1.2 Creating a valuable business generally requires a medium or long-term strategy.

- In the short term, creating value usually requires investment
- Short-term methods of increasing cash flow and profitability can reduce your potential for creating value in the long term. For example, indiscriminate cost reductions
- Long-term strategies are usually riskier. Their eventual outcome is more uncertain
- If you plan to sell your business, the value will be higher if you can show a strong track record over time

1.3 Different stakeholders may have conflicting objectives.

- Some shareholders value a business that offers high, secure and gradually increasing dividends
- Other shareholders may accept more risk for higher growth potential
- Directors and employees may have their own agendas (e.g generous contracts, career opportunities or job security)
- The local community may value a business that is environmentally responsible, or contributes to the community in some way

Ideally, your strategy will take all these interests into account.

1.4 Your strategy will have a better chance of being successful if it includes measurable objectives.

- These are likely to include ways of measuring the overall value of the business
- Set intermediate targets for what you aim to achieve in different areas of the business (see 4 to 7)
- Include realistic timescales for the completion of these objectives

### Measuring value

A traditional valuation method is to multiply sustainable earnings by a factor reflecting your growth prospects.

There are also valuations methods based on assets and discounted cash flow. Particular industries have rules of thumb for measuring value (or potential value). For example, the amount of floor space a retail business has. The cost of recreating a business from scratch often provides a good indication of the value you have built up.

This is particularly appropriate for young, growing businesses that are investing heavily to build future profits. The figure will be misleadingly optimistic if the investment does not turn out to be as worthwhile as you had hoped. For example, companies that < buy > market share will not create value unless they can retain customers and make them profitable.

## 2. Growth

2.1 Operating in an expanding market makes it easier to grow your business.

- If you are operating in a market that is stagnant, or in decline, you may want to exit the business or merge with competitors
- Larger companies are usually in a better position to exploit mature markets
- It is difficult for a small business to create market growth

2.2 Create a business which can be scaled up. For example, you might aim to:

- Expand into other geographical areas
- Acquire smaller competitors
- Franchise the business

2.3 A narrowly focused business, which pursues its goals relentlessly, is the most likely to create outstanding value.

- However, it is also the type of business most at risk of failing
- Diversifying into related products or businesses that suit your strengths can reduce this risk
- Outsourcing non-core activities can improve your business's focus. But you risk losing control of them

2.4 Strategic alliances can be an important source of growth, particularly if you do not have the resources to exploit your opportunities fully. For example:

- Working with a major distributor may be more effective than developing your own sales channels
- Tying in key partners in this way also reduces the risk of losing business to competitors
- You might want to involve a partner in exploiting your intellectual property - or you might want to sell the rights

### 3. Security

3.1 Businesses that are relatively stable are usually considered more valuable.

- A business with volatile profits is less valuable than one with fairly predictable year-on-year increases

3.2 Assets can be a significant element of security.

- Intellectual property can be an important element of value
- This is particularly true in the IT industry, where ownership rights to software and products are a major issue
- Freehold or long leasehold property can provide capital growth as well as security
- Your customer mailing list may have significant value

3.3 The value of assets needs to be protected.

- Maintaining assets helps generate value, while failing to do so can destroy it

For example, the latest technology can increase productivity

- Intellectual property should be patented, copyrighted or trademarked
- Trade marks can be an important part of your branding

3.4 The smaller the percentage of your business's value represented by assets, the greater the risk.

- All the intangible value needs to be protected. For example, in a 'knowledge' business whose value largely reflects the skills of its employees, the business risks losing value to the employees
- Protect your customer database and other key records (e.g debtor records) by printing them out and keeping them off-site or in a fire safe
- Back up data on your IT system.

3.5 The ability to anticipate change is an important way of protecting value.

- Set up systems to monitor the business climate
- You need to be aware of forthcoming political, economic, social and technical changes (e.g new competition or changing customer needs)

- Systems that allow you to anticipate problems and plan ahead will help you create a strong, consistent track record

#### 4. Marketing

##### 4.1 Aim for market leadership.

- Greater market share can create a virtuous circle, with increasing turnover providing economies of scale and high visibility, making it easier to win more customers
- It also makes it easier to attract and retain employees
- No matter how small, any business has the potential to differentiate itself from its competitors and become the market leader in a defined niche

##### 4.2 Create a brand which captures the essence of your business.

What does your product or service offer that sets it apart from those of your competitors? This is your unique selling proposition (USP), and is the basis of successful branding.

- brand helps you maintain the important ingredients of your business as you grow
- A brand helps you interest existing customers in new products
- A powerful brand can be extended as you diversify (e.g Virgin)

##### 4.3 You may be able to grow by changing your market positioning. For example:

- A hotel might grow by moving up market, gradually improving its facilities, standards and prices
- A specialist engineering business might grow by moving down market, developing cheaper, massmarket versions of its marketleading products

##### 4.4 Above-average profitability and growth usually attracts fierce competition.

- Protect your market with strong customer relationships
- Protect any intellectual property that helps you ward off competition
- Use market research to keep in touch with your customers' needs.
- Continue to innovate and avoid complacency

#### Tying in value

You may be able to make some of the intangible value of your business more concrete.

One way of achieving this is by building a strong order book. Differential pricing techniques can help create advance sales (see Pricing).

Use contracts to protect value. Employees contracts can protect confidential trade secrets, and limit their ability to set up in competition with you (see Employment contracts, HR 4). You can use long-term contracts to guarantee the supply and price of crucial materials.

Relationships can be more powerful than contracts. A good working relationship is a better way of controlling an employee than resorting to contractual obligations. Good customer relationships can have a more enduring effect than any sale contract.

## 5. People

5.1 Make your firm an attractive place to work.

- Provide good working conditions. Offer competitive remuneration

5.2 Strengthen your personnel resources through recruitment and training. For example:

- Experienced directors who make creating value a priority. Managers with transferable skills to manage growth. Employees who help you achieve market-leading standards

5.3 Make sure employees want to increase the value of the business.

- Communicate your strategy and get employees to buy in to it
- Use incentive pay to align remuneration with creating value

5.4 Set up systems to minimise the risk of employees 'owning' value. For example, sales people may own customer relationships, expert employees may own important company skills or knowledge, and managers may own their entire team.

- They could use this ownership to negotiate an increased share of the value of the business. Or you could lose it altogether if they leave

You may want to include clauses in your employment contracts to prevent former staff from competing with you.

Systems that make sure knowledge is shared encourage teamwork, and make employees easy to replace are vital.

5.5 Retain key employees.

- The individuals who have created a valuable business will themselves be an important part of that value
- A key employee's value is sometimes explicitly recognized by buying 'key man' insurance
- Provide opportunities for career progression within the company

## 6. Operations

### 6.1 Invest in your operations.

- You may need to invest in research and development for new products
- You may qualify for a research grant. Contact your local Business Link or other business support organisation
- Outdated facilities and technologies will harm productivity
- This hidden negative value can suddenly become apparent when a competitor overtakes you

### 6.2 Streamline operations and create standard policies and procedures.

- Simple, smooth-running processes are easier to use as you grow
- Continually having to make one-off, ad hoc decisions limits your ability to grow
- Firms with a strong owner-manager are particularly susceptible to this limitation

### 6.3 Build management information systems to monitor the business.

- Identify weaknesses and risks, and take steps to protect yourself from them

For example, you might identify an over-reliance on a small number of customers.

## 7. Financing

### 7.1 Ensure that you have adequate financial resources.

- Make sure that working capital limitations do not restrict your growth

### 7.2 Build your financial status.

- Use the right mix of debt and equity to make the business creditworthy
- Behave in a creditworthy fashion  
Pay lenders and other creditors on time
- Make sure investors and lenders are kept informed, and are given advance warning of any likely disappointments or problems

### 7.3 Protect yourself with the right borrowings. For example:

- Setting up borrowing facilities in case of need
- Borrowing at fixed rates

# Increasing profitability

Few people are in a position to sit back and watch the profits roll in. Creating and increasing profitability depends on doing a hundred little things better than the competition.

If you are lucky, a single change could provide an immediate boost to your profitability. More often, you will need to put the right building blocks in place to provide the framework for gradual, but continuous, improvements.

## This briefing outlines:

- The best opportunities to increase your profitability directly
- How to create a framework for increasing profitability

1. The main chanceThe best opportunities for increasing profitability vary from business to business.

1.1 For many businesses, the best way to improve profitability is to increase turnover

- If you have a high gross profit margin, every sale is highly profitable
- Once your turnover reaches breakeven, profits will increase rapidly
- Reaching critical mass creates a virtuous circle
- Acquiring new customers is made easier by your market presence and reputation, and unit costs are reduced through economies of scale

- If your customers tend to be loyal, the value of each new customer lies not just in the immediate sale, but in future sales as well
- The cost of selling to existing customers is almost always lower than the cost of acquiring new customers
- Defending a high market share against competitors is easier than defending high profit margins

Focusing exclusively on margins is a common mistake. But so too is an over emphasis on turnover. Keep a sensible balance.

1.2 For most businesses, the easiest way to increase profitability is to reduce costs (see 3).

If you have a low gross profit margin, reducing direct costs dramatically increases the profit on each sale. Eliminating unnecessary overheads has an immediate impact on the bottom line.

1.3 Every business can increase profitability by reducing hidden costs (see 4).

Small, young businesses and mature, stagnant businesses are particularly susceptible to hidden costs.

1.4 Every business can increase profitability by creating an appropriate framework. This will help you to:

- Focus on profitability. (see 5)
- Make the most of your employees
- Manage for continuous improvement
- Increase or optimise prices

## 2. Increasing turnover

2.1 Focus on a niche market.

Understand this market. Segment your target market, so you can fine-tune what you offer.

2.2 Invest resources in increasing sales volume.

- Use advertising and other promotional techniques, such as seminars and exhibitions
- Actively sell. Do not just take orders
- Retain existing customers
- If appropriate, extend your product range

Review your credit limits if sales to a particular customer go up significantly and consider a credit check. You could be left in the lurch if the customer goes bust while owing you money.

2.3 Maximise the value of your sales.

- Consider moving up market and providing a premium product and service

- Add features to products if the perceived value to the user is greater than the cost to you
- Charge a full price. Get value from the extras you provide
- Keep your product or service up to date. If possible, make sure it stays ahead of the competition.
- Compare price and quality with a competing product

2.4 Focus your efforts on your most profitable customers.

2.5 Target customers who:

- Place large or frequent orders
- Pay the full price, on time
- Are low maintenance
- Adjust your sales mix to favour your most profitable products.
- Aim for sustainable growth

## 3. Hidden costs

Few people would dream of running a production line where every item was made differently, and without the right tools. The effect on efficiency and quality would be disastrous. But in far too many cases, that is exactly how other parts of the business are managed.

3.1 Create systems (e.g procedures and methods) where possible. They will help you minimise errors and reduce time and money wasted fire-fighting.

- Time invested in creating systems is usually minimal compared to that spent solving a problem from scratch, and has a lasting effect

- Systems are a vital part of quality control
- Put checks in place to ensure that employees continue to follow systems. Never assume they are doing so

Systems can improve every area of your business. The costs of not having them can be high.

3.2 Where appropriate, turn decisions into policies to avoid having to make the same decision again.

- Communicate your policies in writing to make them more effective

3.3 Keep systems and policies simple.

- Build systems from common components and apply them across the company
- They will be easier to use and improve
- Avoid overloading employees by creating too many systems or policies, or by making them excessively complex
- They will waste time or be ignored

3.4 Learn from mistakes and problem areas.

- If systems go wrong, fix them.
- In any case, review systems periodically to see where improvements can be made
- If policies have unwanted side effects, change them

- If regular tasks are timeconsuming, investigate how you can improve matters
- Finding information is a common time-waster
- Priorities systems in areas where costs, or the costs of mistakes, are high

3.5 Use labour-saving equipment to reduce costs and errors substantially.

- Information technology is a powerful way of improving efficiency and controlling processes

3.6 Be decisive, but think first.

- Putting off decisions, once you have the information you need, wastes time and delays progress
- Indecisive leadership demoralizes employees

#### 4. Focus

4.1 Simply focusing management awareness on profitability can have a dramatic impact.

- Even if cash flow is your top priority, this need not be at the expense of profitability
- Make sure all your employees are aware of the importance of profitability
- In particular, ensure that sales people focus on making profitable sales (rather than just pushing through volume)

#### 4.2 Understand the key drivers of profitability.

- Set and monitor performance indicators
- The three most commonly used key performance indicators are sales against budgets, gross margin and staff costs
- Make sure they are the right indicators
- Staff tends to work towards them whether they are good for the business or not

#### 4.3 Minimise the effect of distractions.

- Avoid unprofitable distractions. For example, one-off projects that do not play to the company's strengths or contribute towards its strategic goals, or individuals' pet projects
- When managers must be distracted (for example, if you plan to float your company), act to control the impact
- You might nominate one individual to take charge or pay an outside consultant to free up staff and give an objective view.

### 5. Personnel

#### 5.1 Create an effective team.

- Recruit talented people
- Train them
- Motivate them
- Monitor and measure their performance and productivity
- Think how you will allocate staff during peak sales periods

#### 5.2 Create a working environment that maximises profitability.

- Reduce distractions

#### 5.3 Give employees the support they need.

- Provide effective equipment, especially communications
- Provide good support systems, especially information
- Get senior staff to delegate simple tasks more junior staff could do just as well

#### 5.4 Reward your employees.

- Give appropriate remuneration by linking pay to effectiveness
- Provide career progression
- Praise and thank staff when it is due

## 6. Continuous improvement

6.1 A simple planning cycle vastly enhances your ability to make continuous improvements.

- Base your plans on accurate information
- Consult, to improve the quality of your information and to involve employees or other key people in your decisions
- Set measurable, time-limited targets
- Monitor the effectiveness with which your plans are implemented.
- Review what you have achieved

Good planning also helps you to anticipate problems and adapt as things change.

### 6.2 Learn from experience and make continuous improvements.

- Keep improving underlying systems and the planning process itself
- Be ready to alter your strategy if necessary

### 6.3 Apply lessons company-wide.

- Set up systems that encourage communication
- Agree action programmes that set out who is going to do what, and by when
- Benchmarking different parts of the business against each other can be a useful way of sharing best practice
- Improve communications with your customers and suppliers. Your customers will be aware of any problems and can tell you what you need to improve
- Avoiding customers you know have problems may simply make matters worse
- In turn, your expertise may help them solve a problem they did not even know existed

# Benchmarking

Every business can use benchmarking. At its simplest, it helps you to compare statistics and control costs. More sophisticated benchmarking looks at process design and business strategy. Benchmarking is a process that compares your business activities to similar companies. It identifies opportunities for improvement and often provides the momentum necessary for implementing change.

## This briefing outlines:

- The opportunities benchmarking offers
- How to select benchmarking partners
- How to use benchmarking

## 1. The opportunities

Benchmarking simply involves comparing your business activities and processes with those of other organisations. It questions what you are doing and highlights opportunities for improvement.

1.1 The simplest form of benchmarking is to compare costs. For example, utility bills or salaries.

Costs which are higher than the industry norms may provide opportunities for savings.

1.2 Most benchmarking compares key performance indicators.

This tends to focus on productivity and efficiency.

- Some indicators can be easily expressed as simple statistics

For example, sales per employee, gross profit margins or wastage levels.

- Others may require qualitative, as well as quantitative, analysis

For example, to assess the effectiveness of training activities or levels of customer satisfaction.

Indicators which show that the company is underperforming represent opportunities to improve.

1.3 Benchmarking often proves particularly successful when comparing processes. This involves looking in detail at how other organisations carry out the same or similar processes. For example, what technologies and production techniques they use.

You may be able to apply some of these ideas to your business.

1.4 Benchmarking can also be used to compare businesses at a strategic level.

For example, what strategic objectives organisations have where resources are focused and what standards they work to.

Again, there may be an opportunity to incorporate lessons learnt from successful organisations into your own strategy. However you use benchmarking, it is only a tool which highlights opportunities. Benchmarking does not tell you what to do about them.

## Benchmarking at your desk

Valuable benchmark information can be obtained without approaching an external benchmarking partner.

You can benchmark key statistics against widely available industry norms. For example, published information on key financial ratios for your industry, or salary surveys.

You can assess yourself using a benchmark package.

Benchmark packages may include: A model of how businesses should operate. Based on a sample of companies, Find out if the sample used is relevant to your business, and find out if the data has been validated. A <‘facilitator’> to help you collect and analyse data about your business.

You can get involved in a collaborative study of your industry.

A benchmarking consultancy may already be running a study, or be able to arrange for you (and other companies) to share the costs of one.

You can use the Internet as a primary source of data.

## 2 Planning

2.1 Establish a project team from different parts of the business.

- Select influential people who will have the power to see changes through

- Unless your company is prepared to change, the project will lead to nothing

A team of six people, at most, will find it easier to reach consensus.

- Provide any training necessary for the team to understand the benchmarking process (and project management skills)

2.2 Link the benchmarking activity to your company’s objectives.

- Identify which activity you want to benchmark and what the key performance measures are
- Benchmarking models or consultants (see 6.1) can help you
- There is little point in benchmarking peripheral activities
- Focus on the key areas of your business

2.3 Benchmarking will not work unless you know yourself.

- Be clear about the ‘cultural’ factors which influence your performance. These will include:
  - The business environment you operate in  
For example, your market and your customers’ requirements.
  - Your management structure and style. For example, if your company has highly centralised management control, it will be difficult to introduce processes which work in more decentralised organisations

A typical benchmarking project will take three to four months, up to the point of implementation. Unless you purchase external services, the only significant cost is the time of the employees involved.

### 3. Benchmarking partners

Use the aims of your project to establish the kind of benchmarking partners you want.

3.1 You can use internal partners (e.g. different departments or sites) in order to standardise and improve your operations at the level of your best performers.

- If you only do internal benchmarking, you run the risk of complacency
- Internal benchmarking is unlikely to lead to any dramatic insights

3.2 Most benchmarking involves external comparisons.

- Aim to compare yourself against businesses of a similar size and structure, with similar objectives
- Understanding how their objectives, constraints and cultures differ from yours is important if you are going to make meaningful comparisons. You can also compare separate processes which are going to be similar across different companies. For example, the operation of the mail room is likely to be similar for most companies
- Competitors usually provide a direct comparison

- It may be difficult to collect detailed information from them
- There may be legal or ethical constraints which prevent a free exchange of information. For example, if the information is confidential or if you could be accused of anti-competitive collusion

3.3 Benchmarking against outstanding businesses is one of the best ways to bring about a quantum leap in performance.

- It can be more difficult to make comparisons if they operate in a very different business environment

3.4 Identify and select three to six individual partners.

- Business publications and other information sources can provide ideas
- Talk to colleagues, customers and suppliers to establish who leads the field in the area you are benchmarking

### 4. Collecting information

4.1 Approach those organisations with whom you want to make comparisons.

- Use any existing contacts to make the initial approach, or contact your opposite number
- Explain the objectives of the study and emphasise its mutual benefits

4.2 Draw up a benchmarking agreement or use a standard agreement.

**This should include:**

- What information you want to exchange.
- Never ask for information that you are not prepared to share in return
- How you will use the information.
- Who will use the information.
- How and when you will collect the information
- The more focused your research is the more useful it is likely to be

4.3 Decide how you want to collect data. Simple operational data can be exchanged by using a questionnaire - either by post or through a phone survey.

A site visit will give you a much better feel for the environment in which your partner operates.

Use a checklist and visit in pairs. (Two people may find it easier to get complete, objective information and impressions.)

4.4 Send copies of your visit reports to the partner organisations so that they can verify the facts and figures.

- Invite your partners to conduct similar visits. They can collect information on you
- You can hear their views on how you operate

## 5. Managing improvement

5.1 Summaries where you differ from your benchmarking partners.

Depending on your objectives, you may identify:

- Differences in performance indicators. For example, higher staff turnover or lower gross margins
- Differences in individual processes. For example, how you recruit or how your production processes work
- Differences in strategy. For example, what your human resources policies are, or what quality standards you have for your products

5.2 Investigate why you differ.

Typical reasons include:

- Your cost control is poor. Your processes are outdated or inefficient
- You have made a different tradeoff. For example, if you choose to recruit low-grade (and inexpensive) employees in the knowledge that they will soon leave
- You have a different focus from your benchmarking partners. For example, if you have a different target market
- You have different organisational constraints. For example, if you do not have the financial resources to invest in new technology

### 5.3 Decide what action to take and implement the changes.

There will normally be several options open to you:

- You may decide to do nothing
- You may accept that there is a good reason for the difference, or that it would be impossible to make changes
- You may feel that you should adapt your processes
- If your benchmarking partners are similar to you and achieve better results with a different process you may want to adopt elements of that process in your business
- You may target specific areas for improvement and further investigation. For example, if it is clear that your marketing is underperforming but unclear what you can or should do about it
- You may realise that you need to redefine elements of your strategy. For example, changing your objectives or standards

Like all business improvement tools, the success of benchmarking depends on management commitment.

The more complex and far-reaching the change, the more time and effort you will need to devote to developing and implementing action plans.

### 5.4 Review how well the benchmarking study went and what impact the changes had.

- Did the benchmarking study achieve its objectives?
- What went well and what would you do differently next time?
- How well is your business performing now?
- Did the actions you took lead to incremental improvements or to a step change in performance?

Benchmarking is not a one-off activity. Even if you have achieved best practice today, regular benchmarking is essential to keep you up to date and ahead of the competition.

## 6. Where to get help?

### 6.1 You may want to involve a consultant.

Although many benchmarking studies are conducted without external help, a consultant can help with:

- Establishing internal data and organisational processes
- An external consultant may find it easier to be objective about your business
- Identifying and contacting benchmarking partners
- Project management
- Overcoming resistance to change

Only use a consultant for the parts of the study you require help with.

# Benchmarking Checklist

- Select one or two important activities benchmark - typically, a few key processes and related key performance indicators
- Establish who will carry out the project and whether they need help
- Decide what will be the most useful comparisons - industry statistics, similar businesses, outstanding companies or a best-practice model. Your trade association or consultancies to identify any relevant benchmarking packages, models or industry studies
- If appropriate, identify and approach three to six partner businesses; decide what information you will exchange and how it may be used
- Draw up an agreement with any partners, taking into account the need for confidentiality and any legal or ethical constraints
- Collect internal information on the processes and key performance indicators you will be benchmarking
- Get comparative statistical information from published sources, industry studies or partners using a questionnaire.
- Use site visits to investigate partner organisations, their processes and strategies and the business environment they operate in
- Analyse key differences - in levels of performance indicators, in how you carry out processes, or in policies, objectives and other strategic issues
- Investigate why you differ, and to what extent differences reflect comparative weaknesses or different objectives and constraints
- Identify potential improvements and develop an action plan; consider how you will manage any change required
- Review how successful the benchmarking study was and the impact of any changes you made; plan your continuing benchmarking activities

## Cardinal rules

### Do:

- Focus your benchmarking on important activities
- Investigate why other companies' processes and performance differ
- Use benchmarking to drive change

### Don't:

- Choose areas to benchmark just because data is easily available
- Over-complicate by trying to benchmark too many activities
- Collect data which will not help you make decisions

# Pricing

The prices you charge for your products can have a dramatic effect on sales and profits. Setting your prices too high can reduce sales abruptly, while undercharging can devastate your profits. The logic is simple. Your optimum price is one that gives the largest total when you multiply your margin by the number of sales you can achieve. But making sense of that, in relation to the costs you pay out and the markets you serve, is a key issue for every business.

## This briefing covers:

- Understanding the market and how your product fits in
- Deciding on a pricing strategy
- Pricing tactics
- How to increase prices

## 1. The market

1.1 Unless you have a complete monopoly of a unique product, your product's value will depend on the competition.

- Who are your competitors, and what do they offer?
- What are the key features and benefits of their products?

1.2 Find out which products are seen by customers to offer the best value.

- Which products are the most successful?
- Do different market segments buy different products?

What are the key criteria customers base their decisions on? Which criteria justify higher prices for different products? How do prices vary?

## 2. Your offering

Assess how what you offer compares with what else is available.

2.1 Break down what you offer (or could offer) into all its components.

- The core product itself  
For example, a car
- Additional product components.  
For example, number plates and the owner's manual
- Customisable features of the product. For example, choice of color and extras such as airconditioning
- Additional services. For example, delivery and recovery services
- Additional elements of the overall deal. For example, a financing package and guaranteed buy-back price

Include all the components which customers may sometimes ask for – such as rush delivery.

2.2 List all the benefits that customers perceive each component as offering. For example:

- Quality and reliability
- Convenience

2.3 Assess how much each benefit is worth to your target customers, using what you know about the market (see 1), and additional market research if necessary.

Different benefits will often have different values for different market segments. For example:

- Reliability will be more important to a customer who uses your product in a mission critical application
- A product will be worth more to a customer who can make a large profit from distributing or processing it

Different customer perceptions of value may mean that you should offer different packages to different market segments, or use special pricing tactics (see 5).

2.4 Customers' perceptions of value for money will depend on what they expect their total costs to be. For example, the costs of car ownership include depreciation, fuel costs and servicing, as well as the purchase price.

- Providing lifetime value for money is more important if you aim to get repeat business from the same customer

Many businesses value what they offer intuitively, rather than using this kind of logical process.

### 3. Pricing strategy

3.1 Take account of the constraints on your business. For example:

- Investor requirements (e.g high short-term returns or long-term growth) and other external influences
- Your financial resources and your production capacity
- Your cost structure (see 4)

3.2 The most appropriate strategy will depend on how you want to position the product.

- In many markets, a high price contributes to the perception of a product as being of premium value
- You may want to establish consistent pricing across your product range or to position individual products 'up' or 'down' market
- Different strategies may be appropriate at different stages in the product's life cycle. For example, capitalising on existing customers' inertia at the end of a product's life by charging a high price

3.3 You can charge higher prices if high barriers to entry will prevent the emergence of new competition. For example, if you have a patent, special skills or strong customer loyalty.

- Customers will be more loyal if purchasing an unsatisfactory alternative carries significant risk

to them. If barriers are low, you may want to limit your prices (and achieve a merely acceptable return on capital employed) in order to avoid encouraging new entrants

3.4 You may want to charge different prices for different customers.

- Customers who purchase repeatedly, or buy add-on or related products, are the most valuable
- Customers who are expensive to satisfy (e.g. demanding special features or service) will be less profitable, unless you can charge them higher prices
- One-off sales generally carry far higher costs than repeat business

#### 4. Your costs

4.1 A cost-plus approach to pricing has many disadvantages.

- It does not take into account the level of demand and competition
- The price you need to charge depends on the volume you sell, which in turn will depend on the price you charge
- The mistake to avoid is failing to include all your costs in your analysis. If you do this, you will end up undercharging
- Cost-plus pricing reduces the pressure to control costs

4.2 Although your costs do not tell you what your prices should be, they do tell you whether they are viable.

- If you charge less than your direct variable costs, you will make a loss
- If you charge more than your direct costs, each sale will make a contribution towards covering your fixed costs and ultimately making a profit
- The contribution each sale makes towards covering your fixed costs tells you what volume you need to sell to reach breakeven

4.3 Your cost structure may influence your strategy.

- If you have high costs relative to your competitors, you will need to position your product with a premium price
- The higher the proportion of fixed costs, the more important it will be to generate high sales volumes.
- Some costs are unrecoverable if sales are not made soon enough. For example, the costs of underemployed staff, perishable goods and products which become obsolete

4.4 Analysing your costs can be a useful benchmarking exercise.

- In the absence of other reasons, margins below industry norms suggest your costs are too high or your prices too low
- Industry margins provide a rough guide to the prices which may be achievable when considering new products

- Differences in costs can be a useful way of creating consistent pricing across a range of products or markets
- Analysing the additional costs can help to prevent you from undercharging for special orders or demanding customers

## 5. Tactics

### 5.1 Varying your prices with differential pricing can increase your profitability.

For example:

- Charging lower prices for high profile products to capture customers who will also buy higher margin products
- Charging different prices at different times of the day, week or year to reflect changing
- Demand or the changing value to customers of your product
- Charging different prices for different levels of service or product specification

### 5.2 Discounting can be worthwhile, but only if it achieves your aims.

- In some industries, trade discounts are the norm and you may have to offer them to match the competition
- A cash payment discount can encourage early payment.
- Some customers may claim the discount but delay payment anyway
- Clearance discounts can help you to sell off old stock and release working capital

- Bulk discounts encourage large orders, which may carry lower unit costs for you
- Retrospective discounts or rebates may encourage customers to concentrate their purchases with you
- Introductory discounts may encourage customers to try a new product
- However, they may create the wrong image for your product or generate sales which are not repeated when the discount is removed

They can also cause resentment among current customers.

### 5.3 Special tactics may work in particular situations.

For example:

- Bundling additional products together and charging a package price

This works well if the perceived increase in value is greater than the additional costs.

- Charging a psychologically attractive price
- Charging a fixed price across a range of products. This makes it easier for you to predict your income. Also, some customers may prefer being able to compare products without having to make price comparisons

## 6. Checking your prices

Review your prices regularly to ensure that they are optimal.

### 6.1 Keep up to date with the market.

- What is the competition doing? How are customers' perceptions of the value of your product and competing products changing?

### 6.2 Turnover and changes in turnover may indicate a pricing problem or opportunity.

- Products with high or growing market share may present an opportunity to increase prices
- If you pitch or tender for business, too high a success rate suggests that you are under pricing
- If both margins and market share are low, you need to change something - or discontinue the product

### 6.3 Limited trials of price changes can provide valuable information at reduced risk. For example:

- Changing the price for a sub-sector of your market. Introducing a new product at the new price while continuing to offer the old product

### 6.4 Analyse the effectiveness of any pricing tactics you use.

- Are you achieving your aims? For example, increasing sales to target market segments or smoothing capacity usage
- Are there signs of unwanted side effects? For example, reduced sales of full price products
- What is the overall effect on profits?

## 7. Increasing prices

### 7.1 Analyse the impact on profits of any proposed price change before you make it.

- Give customers advance warning if they need to budget for your price increase
- What will the effect on sales volumes be?
- What will the effect on margins be?

Increasing prices (and hence margins) can sharply increase your profits, even if your turnover drops.

### 7.2 Explain to your customers why you are increasing prices.

- Use the price change as an opportunity to re-emphasise the benefits you offer
- A good explanation can strengthen your customer relationship

### 7.3 You can try to hide price increases.

For example:

- By gradually introducing new, higher priced products and making old products obsolete
- By lowering the specification (and your costs), while maintaining the same price
- By improving the specification and raising the price
- It is wise to increase the price by more than the cost of the improvement
- Hiding price increases runs the risk of adverse reactions when customers realise what you are doing

### 7.4 A good relationship with customers can help to improve their perception of the value of your product and the risk of trying alternatives.

- Spending more on marketing and customer care may allow you to increase margins and turnover

#### **Aim high**

Under pricing your product can be even more dangerous than overcharging. It is far easier to reduce prices than to increase them.

- If in doubt, try higher prices first. Customers may not respond to low prices

- A low price may create an image of a low quality product and service
- Your target market may not be particularly price-sensitive
- Low prices may attract unprofitable customers
- While prices are low, so are margins
- Price-sensitive customers tend to be disloyal when prices increase. Cheap products may cannibalise sales of more expensive ones

#### **Price quotes**

Spell out everything which is included in the price.

- Assigning a price to every component (eg. delivery) and then giving it back as a discount highlights the value of your offer. For one-off sales, you can compete with an attractive price on the core component of what you are offering. Then charge a full price for all the extras once the customer has decided to buy. Anticipate any negotiation when pricing your product
- Non-negotiable prices can enhance your image of quality and value

# Cost control

Cutting costs is the simplest way to improve your bottom line. Introducing a cost control system can bring immediate savings and ensure that you remain competitive in the longer term.

But cost control needs to be carefully managed. While eliminating wasteful activities is clearly beneficial, indiscriminate cost cutting can lead to falling quality and poor morale.

## This briefing covers:

- Identifying where to focus your efforts
- Managing cost control
- Specific cost control opportunities. The pitfalls

## 1. Your costs

Cost control works best as part of your routine financial management. The first step is to look at your existing costs.

### 1.1 Identify your major cost centres.

Typically these might be purchasing, production, sales and marketing, financing, administration, premises, facilities management and R&D.

- In a small business, a cost centre is usually the area one manager is responsible for

### 1.2 Identify the major types of cost within each cost centre.

These might include staff costs, raw materials and supplies, utility bills for energy and water, capital expenditure, other purchases (eg consultancy services and advertising space), premises, telecoms, travel, transport and financing costs.

### 1.3 Choose the costs to focus on first.

- Costs that may offer easy savings (see 5)
- Large costs that you may be able to change in the short term
- Fixed costs (eg long-term fixed rate loans or fixed price contracts for raw materials) are hard to control in the short term

Some cost centres, such as R&D, make important but indirect contributions to your bottom line.

You need to account for these contributions before deciding whether to cut their budgets.

## 2. Systematic cost control

### 2.1 Start from your business objectives.

For example, you might aim to manufacture 1,000 units per month, or to win ten new customers.

- What are your quality standards? For example, your customer service standards might require a trained employee to respond to all enquiries within a specified time

### 2.2 Establish your 'standard costs' for achieving your objectives.

Standard costs are the costs you would have in an ideal world (but see 2.4). You need to consider:

- What resources you need. For example, components of a specified quality or staff with specific skills

- How much of the resources you need. Standard costs assume optimum performance (e.g no unnecessary wastage of raw materials or staff time)
- What the resources cost

### 2.3 Establish realistic ' budgeted costs' based on your actual experience.

- Budgeted costs will usually be higher than standard costs. For example, you might expect two per cent of all production to be wastage (including substandard goods), raising unit costs
- Budgeted costs may sometimes be lower than standard costs. For example, your customer service staff costs may be lower than the standard cost, because you are currently using fewer, lower paid staff

### 2.4 Record your actual costs and compare them with the standard and budgeted costs.

- It may be appropriate to compare unit costs (cost per unit produced) or total costs (including overheads such as premises)
- Costs that are higher than your budgeted costs may indicate opportunities to reduce costs in the short term
- In general, the larger the cost overrun, the more scope there should be for savings

- Costs that are higher than your standard costs usually indicate opportunities to reduce costs in the longer term
- Lower costs may indicate good management, but might also reflect quality failings or impending problems

For example, costs can be cut in the short term by cancelling all training - at the risk of causing longer-term skills shortages.

Using a spreadsheet or cost control package, it is easy to record and compare costs on a regular basis (e.g monthly).

### 2.5 Periodically review what you are doing and how you are doing it.

- Benchmarking yourself against other organisations may show that your performance is sub-standard. For example, if your wastage levels are higher than the industry average
- Internal review, or input from an external consultancy, may suggest alternatives. For example, standardising components to reduce design and manufacturing costs

### 3. Who is involved?

3.1 Each cost centre is usually the responsibility of one manager.

- Some costs can be easier to control if one manager is responsible for that cost throughout the organisation. For example, concentrating all purchasing can make it easier to achieve economies of scale

3.2 Involve employees in cost control.

- Employees can suggest cost-saving ideas, especially if there is an incentive to do so
- Ask what causes them problems or wastes their time
- Employees are more likely to cooperate with cost control initiatives if changes are explained to them

3.3 Include your customers and suppliers.

- Ask your customers if you are providing them with anything they do not need
- Your suppliers will know what other purchasing options are available that might suit your business

3.4 External consultants can be a useful resource (see 7).

### 4. Easy savings

- Some costs can be reduced with little risk of an adverse impact on quality and performance

4.1 Checking supplier invoices may reveal overcharging.

- Common examples are double billing, incorrect charges and missing discounts

4.2 Eliminate unnecessary costs.

- Get rid of obvious overcapacity (e.g. unused telephone lines)
- Cut out blatant waste (e.g. heating premises at night, or with windows open)
- Scrap useless processes (e.g. paperwork that is completed, filed and forgotten)

4.3 Crack down on excessive costs.

- Use second class postage, or email or fax, unless only first class post will do
- Find alternatives to high priced suppliers, or negotiate discounts
- Avoid over-specifying (e.g. high quality components for a low quality product)
- Ban wasteful luxuries (e.g. full-fare business class flights)
- Cutting back on items employees see as 'benefits' or 'perks of the job' needs careful handling (see 6.1)

#### 4.4 Root out inefficiency.

- Identify manual, paper-based systems that could be replaced by computers
- Avoid frequent small orders. They waste time and may mean you lose discounts
- Consider switching to single monthly invoicing to cut processing and admin costs
- Deregulation

Prices of gas and electricity have fallen as a result of competition - though this is unlikely to continue. Businesses are no longer restricted to buying from their local suppliers. Suppliers can offer tailored pricing packages, based on your requirements. Remember to compare like with like when looking at competing quotes. Suppliers may offer additional discounts for buying both electricity and gas from them, or paying by direct debit. Choose a supplier that offers the right quality of service.

#### **Look for:**

A flexible contract which suits you (eg guaranteed prices). Added value services such as technical support and energy efficiency advice. A supplier with a good track record.

### **5. Opportunities**

Effective use of a systematic approach will highlight opportunities to control costs with little risk. In some cases, there will be easy savings such as cutting the cost of supplies (see 4).

In others, cost reduction will require changing the way you do things. Some of the most common opportunities are listed below. In every case, be aware of the potential pitfalls (see 6).

#### 5.1 Reduce your payroll costs.

- Outsource non-core activities
- Use consultants, freelancers or parttime employees, instead of fulltime employees
- Redesign processes to eliminate duplication of effort and to cut out activities that waste time
- Make more use of technology and automation
- Do not overpay when recruiting new employees

## 5.2 Improve your purchasing.

- Switch to cheaper suppliers, or negotiate price reductions or higher discounts for early payment
- Consolidate purchasing with fewer suppliers to get better discounts
- Agree long-term supply contracts or guarantee minimum annual purchase volumes in return for lower prices
- Build personal relationships with suppliers to encourage preferential treatment
- Simplify purchasing procedures to reduce your costs, and those of your suppliers
- Form strategic buying alliances (e.g purchasing consortia) with businesses in your area or trade to buy larger volumes
- Give individual employees purchasing limits to reduce administration and ask your bank about purchasing cards

## 5.3 Find ways to make production more efficient.

- Trim back your product range and increase production runs
- Use standard components to lower design, purchasing and manufacturing costs
- Change processes to minimise wastage of raw materials and energy
- Improve quality control to cut rejection rates and reworking costs

## 5.4 Review your finances.

- Finance fixed requirements using loans, instead of overdrafts
- Reduce unnecessary overdraft and loan facilities
- Cut back on working capital through just-in-time purchasing, better credit control and agreeing longer payment terms with your suppliers
- Apply for grants and subsidised loans

## 5.5 Get the most out of your premises.

- Introduce home working or hot desking to cut space requirements (and travel costs)
- Reconfigure existing premises and work flows to minimise wasted time and space
- Sub-let spare space
- Control utility costs

## 5.6 Cut the cost of communications.

- Use email whenever possible
- Use the corporate intranet to reduce duplication of information and unnecessary meetings
- Use cheaper telecoms facilities (eg alternative suppliers, leased lines)

## 6. Pitfalls

Reducing costs can be damaging. Before making changes, check that your standards will not be compromised and that your ability to meet objectives will not be harmed.

6.1 Reducing costs which directly impact on employees is fraught with difficulty.

- Employees are not machines
- The work performance suggested by time and motion studies is unlikely to reflect people's actual behaviour
- Reducing costs such as training and meeting times is often counterproductive in the longer term
- Introducing improved procedures can be difficult and expensive.
- Employees may be resistant to change, and may need extra training
- Poor conditions pay and benefits will not attract and retain good employees
- Changing an existing employee's terms and conditions, to the employee's detriment, can be a breach of contract.
- Making employees redundant brings short-term costs and the risk of possible employment tribunal proceedings
- It may also damage morale among those who remain

6.2 Almost every cost saving has a potential downside. For example:

- Over-dependence on one supplier puts you at risk if the supplier fails
- Production and marketing plans that are driven by cost-cutting considerations are unlikely to be responsive to customer requirements
- Tighter control of financing may leave you with no safety margin when cash flow is unexpectedly poor
- Cutting short-term 'investment' costs (e.g training, advertising, equipment or new product development) can lead to long-term weakness
- Attempting to control unalterable costs is itself a wasteful process

## 7. Consultants

7.1 External consultants can offer an advantage over purely internal cost control.

- Consultants may have up-to-date, specialist knowledge. For example, they may be acquainted with up-to-date benchmarks for your industry and current market conditions for utilities and other suppliers
- A consultant's thinking may be able to avoid being influenced by vested interests and historical preferences within your company

## 7.2 Select a consultant carefully.

- Look for membership of an established and appropriate professional body, with a published code of conduct
- Check references and look for evidence of a good track record, working with businesses comparable to yours
- Find out about the consultant's financial standing and check that there is indemnity insurance cover in place

Consultants may have specialist expertise in particular areas (e.g production engineering or energy costs).

## 7.3 Negotiate a clear, written contract.

- Agree what you will pay. If fees are to be based on a percentage of savings, agree how these savings will be calculated
- Arrange when you will pay. Avoid having to make upfront payments, before you can see the results of a consultant's work
- Insist that the consultant signs a formal confidentiality agreement

# New product development

A <new product> can be a product or a service. It can be the next revolutionary computer chip, or a new holiday package put together by a travel agent. The point is, it is new, so it is often risky. This briefing will not help you generate the ideas for completely new products, or recognise a winner when you see one. It focuses on the next stage - turning an idea into a new product, once you have decided to go ahead with it. It covers:

- Reducing the risks as early as possible
- Setting a spec, a price and a schedule
- Running the project team and keeping costs under control

## 1. Can you complete it?

- Apart from having the right product idea in the first place, there are three essential ingredients for successful new product development

### 1.1 You need the relevant skills.

For example, if you are developing a new food product, having a technician who can create the right look and taste is only the starting point.

- Other issues include sourcing ingredients, the mass production process, quality control, packaging, customer trials, costing and pricing, and so on

You may need to include several people from outside your business (see 4).

### 1.2 You need to commit sufficient resources, including management time.

If you can only afford a half-hearted attempt, do not even begin. Without the critical mass of people, time and money invested, your project will be doomed to failure.

If you commit too many resources, the rest of your business may suffer. You may need finance.

### 1.3 You need personal commitment to the success of the project.

- Though teamwork is important (see 4), in a smaller business it is often the owner-manager who must drive the project

In practice, most new product development is incremental - improving on an existing product. Compared with starting a product from scratch, this is relatively straightforward

## 2. Reducing the risks

Identify major risks early on, so you can decide if the overall risk is worth the potential reward.

### 2.1 Analyse all the market risks. For example, a tour operator considering developing a new package holiday based on whale watching in Madagascar should:

- Establish the likely volume of sales, and the marketing and sales cost of achieving each sale
- Check how stable the currency is, and consider hedging the currency risk

The killer blow for a new product will often be something you have not even considered.

For example, a few years ago, some publishers rushed out CD-ROM products, only to discover, too late, that most of their customers had not yet acquired computers with CDROM drives.

2.2 Analyze the technical risks. For example, the Madagascar tour operator would need to consider the reliability of the airlines, hotels and boat operators involved, and logistics generally.

2.3 It is extremely helpful to have a working prototype to test out. But this need not be an expensive process.

For example, the tour operator might circulate a priced itinerary and a mocked-up brochure, to ask travel agents how many whale-watching holidays they would expect to sell.

- For mechanical devices, you may need both a 'works-like model' and a 'looks-like model'
- If you are improving on an existing product, you may only need to model the new features
- Start with a simple prototype such as a drawing. Good feedback at this stage can save time and money
- Potential customers, suppliers and members of the development team can give extremely valuable feedback once they see what the product is and how it works

2.4 Avoid being the pioneer, who has to learn everything the hard way. Look for evidence of what others have achieved before you. For example, the tour operator could see how comparable whale-watching holidays in Canada are packaged and marketed, and could investigate which hotels in Madagascar other operators use.

2.5 Work out how to reduce each risk to an acceptable level. For example, can your new design be patented or protected in some other way?

# Non-starters

## Non-starters

While a good product idea is no guarantee of success, a bad product idea is a guarantee of failure.

Here are some of the fatal flaws. You cannot sell at the price or volume necessary to make a profit.

Your product can easily be copied. For example, you may invest heavily to develop a brand new type of service and build up a market for it. Competitors can launch me-too services at lower prices, as they have not incurred all the costs. You lack market power.

For example, a new piece of software may be the best in the market, but it could be doomed to failure if you lack an effective route to market.

Your product is over-ambitious. For example, a new methane car would require breakthroughs on several fronts - engineering the car itself, persuading petrol stations to offer methane fuel, persuading consumers to buy the car, and persuading someone to finance the project in the first place.

### 3. Know what you are doing

You need to know the what, when and how much of your new product before you can turn your idea into a project.

3.1 Start by defining a basic specification ('spec') for the product. List the features, and how they translate into specific requirements. For example, if the basic features of a new mobile

phone include long battery life, small size and low weight, this means you must use a certain type of battery.

3.2 Make sure you have a unique selling proposition ('USP') - a reason for customers to switch over to your product.

- If existing phones can only manage email, you need one that can surf the Net. If existing phones only use one bandwidth, you need one that can use two or three

3.3 Plan the design of your product. This can be crucial to its success.

- Use in-house or external designers and get them to sign confidentiality agreements if necessary

3.4 Pencil in a launch date.

- When should the product be ready? If it is delayed, how will that affect pricing, sales volumes and profitability?
- Unless you and a competitor are racing to launch similar products, hitting a particular launch deadline may not be vital
- Plan to launch a pilot version of the product with a few favored customers, to identify and sort out the inevitable problems before the main launch
- This also helps you build up your order book before the launch
- If you need any approvals or certification (e.g for any electrical product), book the product tests

Ask if the approvals body can also test your prototype, to identify any problems early on.

3.5 Decide on the likely selling price for the product. Based on this, work out what your maximum unit cost of production can be.

- Many new products are based on achieving cost reduction
- The aim is to provide the same quality of product at a lower price and with better profit margins
- Other products rely on superior design or technology to win market share, and can be priced at a premium
- But you still need to build to a price, to avoid pricing your product out of the market

3.6 Estimate volumes and delivery demands.

- How much will you make and sell each month? What will typical order sizes be?
- How quickly will customers need delivery?
- If you will sell the new product in volume, it is important to achieve a low unit cost of production. To do this, you may have to invest heavily in the development stage

### **Efficient manufacturing**

Develop manufacturing plans at the same time as developing a new product design. Test proposed designs to see if they can

be manufactured cost-effectively.

Design new products with an eye to minimising the number of components. Try to reduce the complexity of assembly. Use standard parts wherever possible, so they are inexpensive and easy to source. Standardisation is especially important if production volumes will be low. Consider using parts that you already use in existing products.

Avoid reinventing the wheel. Where possible, buy in components that can be sourced at competitive prices. This can slash development costs and lead times.

## **New product development**

### **4. Your team**

Hand pick your team to suit the project.

4.1 Every new product needs a product champion to lead the team.

This individual should regard the product as his or her 'baby'.

- Without such a champion, the project will lack the passion and perseverance needed to overcome the inevitable setbacks
- It is not enough to tell a manager that he or she has been chosen as team leader. You need a leader with the enthusiasm and energy to make things happen

- Give the team leader the authority to run the project (within an agreed budget and timetable), without continual interference

4.2 Create a team with all the skills needed to make the project a success.

- Involving a complete team from the start allows people to work in parallel, reducing the overall development lead time
- Without this approach, problems can remain hidden until late in the day. For example, you might belatedly find that something is expensive to make, or a component is difficult to source
- Involve key customers, if appropriate
- Involve any suppliers that will provide key components of the product

4.3 Make sure all the team members are agreed about the main objectives, which are based on the basic spec.

4.4 Be prepared for negativity and keep the team motivated.

- If anyone is unco-operative or has a 'can't do' attitude, this will have a corrosive influence on the rest of the team. Avoid including such a person in the first place
- Most projects go through a honeymoon period, while you are generating ideas. Putting these ideas into practice can be a long and tiring process

- Make it clear that there will be failures along the way, so individuals are neither afraid of making mistakes, nor depressed by setbacks when they occur
- If making the new product was easy, someone would have done it already

## 5. Project management

Having formed the project team and agreed that the new product is commercially and technically viable, you need to get the details right.

5.1 The team leader should decide the key parameters for the product specification.

5.2 Where appropriate, allow each individual to decide the more detailed specifications, within these agreed parameters.

- By allowing individuals to take personal responsibility for each part of the project, you end up with a highly motivated team
- Use a series of SMART objectives (specific, measurable, agreed, realistic, and time-limited) to control progress. This helps to identify problem areas that you can then focus on

5.3 Draw up a critical path diagram, showing the order in which tasks must be completed.

- By agreeing some working assumptions, your team can start work on different bits of the jigsaw puzzle. For example, once you have decided your new mobile phone needs batteries of a certain weight and size, you can assign someone to source them. Later on, you can still change the battery spec and re-source if necessary
- For major projects involving several people, use a project management package. For example, Microsoft Project or Mac Project
- This allows you to schedule in factors such as people and other commitments. You can then spot likely delays and bottlenecks

5.4 As the project proceeds, you usually need to adjust the spec and planning assumptions.

- When you show customers the prototype, you may be forced to rethink the whole product, in the light of feedback received
- Keep asking yourself if the project will meet its commercial objectives

## 6. Cost control

Without planning and monitoring, costs can spiral out of control.

6.1 Use top-down cost estimating if you have done a comparable project before.

- Using the previous project as a benchmark, you might double the cost (if the new project will take twice as long, using the same number of people), then add in an inflation factor

6.2 Use bottom-up cost estimating if there is no comparable project.

- Each team member calculates the cost of his or her part of the project. These costs are agreed with the team leader
- Add up these costs and add in a contingency factor to estimate the total cost. This is the budget for the project
- Bottom-up estimates often seriously underestimate the costs, because tasks take much longer than people expect

## 7. Long-term planning

You need to adapt and innovate constantly to stay ahead of the competition.

7.1 Plan for new product development on a scheduled basis.

- Extend product life cycles by repackaging, adding new features and finding new applications for the product
- Do not wait until competitors launch their 'next generation' product before starting on your own

7.2 Budget for new product development.

- Put aside money to make improvements, and money for totally new products
- Set targets, each year, for the number of improvements or new products you aim to complete. Or, say, the percentage of sales generated by products that are less than two years old

# Stress management

Stress affects employers as well as employees. It can cause illness and absenteeism. It can also be the cause of bad business decisions, poor workplace relations and loss of productivity.

This briefing covers the following points:

- The cost of ignoring stress
- How to recognise stress
- The major causes of workplace stress, and what to do about them
- Relaxation techniques

## 1. The cost of stress

1.1 High levels of workplace stress are likely to result in high levels of employee turnover.

- Continuous employee turnover will disrupt business and reduce productivity
- It will also increase costs (for example, on recruitment and training)

1.2 Employees who are under stress make poor decisions.

- They are more likely to make casual errors
- They may also apply faulty judgment to more important matters (for example, contract negotiations)

1.3 Workplace relations and customer service may deteriorate. Employees are likely to be more irritable and less tolerant.

1.4 Overall, where stress is a problem, productivity will be lower. For example, employees may miss deadlines, or even ignore them. Pressure is a part of getting any job done. Many people thrive on pressure, up to a point. But when pressure becomes stress, it is a problem management needs to address.

## 2. Recognizing stress

The sooner you recognise excessive stress, the sooner you can do something about it.

2.1 Train your employees to look out for the symptoms of serious stress in themselves and their colleagues.

- Make sure they know you are prepared to discuss problems, so they bring them to your attention

2.2 Individuals may find they cannot cope with their workloads.

- They may constantly feel rushed and unable to concentrate
- They may not be able to switch off from work, or feel tired all the time
- In the worst cases, they may dread coming in to work at all

2.3 You may notice behavioural changes, even though the employees concerned may not be aware of them.

- Employees under stress are likely to lose their sense of humour and become moody and irritable
- The pattern of their working days may change. For example, they might start staying late, and consistently refuse to take breaks
- The standard of their work may suddenly drop
- They may start taking more sick leaves

2.4 Employees under stress may show signs of physical illness.

- They may complain of nausea, frequent headaches and migraines or other unexplained aches and pains
- They may admit to sleeping badly
- They may seem jumpy, or you may notice they are shaky or trembling

2.5 People suffering from stress may experience longer-term serious illness.

- Stress has been linked to asthma, high blood pressure, heart disease, ulcers, strokes and even cancer
- Stress can cause mental health problems, such as anxiety or depression, and may even lead to suicide. The common causes of stress at work are explained in 3-7 below

### **Tough at the top**

Owner managers and directors often find their positions lonely and isolating, which itself can cause stress. There is often little support in decision-making. Employees often expect the boss to know exactly what to do. Decision-making is more stressful if there is no-one to share responsibility should things go wrong. Discussing work-related or personal problems with employees may feel inappropriate, leading to further feelings of isolation.

Try finding ways to talk. Create an informal group of colleagues who work at the same level in other companies. They will probably be just as keen to discuss their challenges at work as you. Consider bringing in outside help. A mentor (or executive coach) could help you cope with the pressures of running a business. A mentor could also help you sort out priorities and long-term goals and assist in managing change within your company. Most Business Link offices offer mentoring.

### **3. Pressure of work**

A common cause of workplace stress is taking on (or being expected to take on) too much work.

3.1 Giving employees unrealistic targets can result in a drop in morale and a corresponding loss of productivity.

- It is counterproductive to expect employees to meet unreasonable deadlines on a continuous basis

- Poor instructions and lack of planning and prioritising may also cause stress, particularly when combined with a heavy workload
- Employees may over-estimate their own capacity for work, in an attempt to please or impress
- They may then be reluctant to admit that they have bitten off more than they can chew
- They could end up producing far less than they would have done with a more modest target in the first place

### 3.2 Management action can resolve many of these difficulties.

- Ensure that targets are challenging but realistic
- Ensure employees understand the long-term goals and objectives underlying their jobs
- Make sure employees do not take on too much work
- Encourage delegation wherever possible
- Provide training in time management, if necessary
- Encourage employees to prioritize and tackle the most important tasks first
- Cut back on time-wasting activities, such as over-long meetings

## 4. Long hours

In order to get the job done, it may sometimes be necessary for employees to come in early and leave late.

### 4.1 Working in long sessions can adversely affect the quality and quantity of employees' work.

- As employees become more tired, they find it more difficult to concentrate and perform
- Tempers are more likely to fray

### 4.2 Defuse these problems by encouraging employees to take regular breaks.

- Make sure they break for meals, rather than eating on the job
- At least once a week, encourage employees to leave at a reasonable hour and do something in complete contrast to their work

### 4.3 Encourage employees to take regular short breaks, in addition to longer holidays.

- The benefits of such breaks extend throughout the year
- They are also much less disruptive, as they often do not require additional cover
- Longer holidays are also important, as they allow employees to wind down fully

## 5. Management style

Problems with the boss, or another employee, are a major cause of workplace stress.

5.1 Behaviour which is bullying or aggressive, from whatever source, will certainly cause employee stress.

- Bosses who make a point of humiliating their employees in public are likely to lose the respect and co-operation of their workforce
- They could also lay themselves open to legal action
- Those bosses who allow subordinates to humiliate other employees run the same risks
- What one person sees as playful or joking behaviour may be viewed by another as harassment

5.2 Ineffective management can also put employees under serious stress.

- Reluctance to address known problem areas is likely to cause a high level of anxiety amongst employees
- Reluctance to deal with problem employees can be even more destructive
- Failure to establish clear targets and priorities for individual employees can leave them floundering in a sea of conflicting responsibilities

5.3 Managers should establish a style of working behaviour that is appropriate and productive.

- Look for ways to give employees more control and autonomy over their work. Ask for input, ideas and opinions
- Rule by reward, not punishment. Aim to make employees understand their work is valued and appreciated. Review performance regularly, so employees know how well they are doing
- Operate an open door policy, and ensure employees know they can approach you with their problems
- Do not drop people in at the deep end
- Offer training, help, advice and support so they can fulfil their roles more effectively

5.4 Take positive steps to avoid a long hours culture. For example, the directors of a business may have boundless energy and may choose to work long hours. They have an obvious long-term incentive.

- But other employees should not be made to feel guilty for leaving on time

## 6. Lack of communication

In times of change, employees who do not know what is happening to them or the company cannot work effectively.

The answer is to improve communications.

- 6.1 Any significant change in the way the business is run can create stress. For example, the appointment of a new manager.
- 6.2 Tell employees what is going on in the organisation, so they feel more secure.
  - Let them know the reasons for changes which may affect them.
  - Actively encourage a free flow of ideas and feedback in order to get people involved and feeling motivated
  - Arrange meetings to discuss new projects, so everyone knows what is happening and what is expected of them
  - Discuss employees' long-term career plans
  - Assuming it is true, make them feel they have a future within your organisation

If possible, try to make sure there is someone in the workplace people feel they can bring their problems to, both informally and in confidence.

## 7. Problems at home

You cannot afford to ignore employees' personal problems, because of the impact they have in the workplace. A flexible approach is needed.

- 7.1 Bereavement obviously causes a high level of stress.
  - Divorce, serious illness, moving house and serious financial problems also carry a high stress quotient
  - Holidays, problems with children and family arguments cause stress though usually at a lower level
- 7.2 A sympathetic approach will help employees get back to normal more rapidly.
  - Be prepared to offer employees time off if necessary
  - Consider offering more flexible working arrangements
  - If necessary, encourage employees to seek professional help

## 8. Learn to relax

There are many different ways to relax and wind down.

8.1 Adopting a healthy lifestyle provides a good base from which people can deal with the stress in their lives.

- Eating healthily and getting enough sleep are the foundations of a lowstress lifestyle. They work well for many people

8.2 Most people find it difficult to switch off from work, particularly after a tough day.

- Sport and other physical activities are particularly good for relieving the build-up of stress
- Getting a massage, going for a walk, listening to music or taking a hot bath can also help
- Encourage employees to cultivate leisure activities that provide a contrast to their work

## Spotting and tackling stress

The first step to dealing with stress is taking a systematic approach to identifying problems. You can then address the root causes of stress (see 3-7) and help the employees concerned.

Conduct a stress audit of your business. Your audit should highlight actual and potential causes of stress such as bullying, a lack of support from managers or long hours. The audit can be done by using questionnaires or by talking to staff, individually or in groups.

# Advertising Strategy

itself in some way, reaching out to customers and potential customers. For businesses with large numbers of target customers in well-defined market segments, advertising is often a cost-effective way of communicating with them.

## This briefing covers:

- Setting your promotional objectives and deciding whether to advertise
- Determining your promotional budget
- Deciding where and when to advertise
- Measuring the effectiveness of your advertising campaign

## 1. Your objectives

Before deciding whether to use advertising, clarify what you are trying to achieve. Your ultimate objective is probably to increase sales. But your promotional activities may focus on intermediate objectives that make sales and other business objectives easier at the end of the day.

Draw up a list of SMART objectives (specific, measurable, agreed, realistic, timelimited), against which you can measure the effectiveness of your campaigns

1.1 You may need to create awareness of something, or change customer attitudes.

- Creating a reputation as the market leader may allow you to increase your prices and win long-term contracts

- Building brand awareness for a product makes the product easier to sell. It also makes it easier to launch new products
- Making consumers feel good about your company can boost sales

1.2 You may need to convey a specific one-off message to your market. For example, informing people of a special offer, or a particular benefit of your product.

1.3 You may need to prompt specific action, such as the customer visiting your premises.

- If you are building up a database of leads, your objective might be to gather the contact details of potential customers
- If your product is suitable, your objective may be to create sales there and then

1.4 You may need to address your existing customers, rather than win new ones.

- Keeping up 'front of mind' awareness encourages customers to consider you first when they place their next orders

Be specific about who you are trying to communicate with.

## 2 In the mix

Consider whether advertising is the most cost-effective way of achieving your objective, or whether other forms of promotion would be more effective.

### 2.1 Who are you trying to reach?

- What common characteristics define your target market? For example, consumers in the same geographical area, individuals from the same socio-economic background or people who share a common interest. Decide if you want to reach endusers or intermediaries

Be clear who makes the buying decision.

### 2.2 What media best reach your target market (see 4)?

Advertising is only cost-effective if it reaches a readership or audience which significantly overlaps with your target audience.

### 2.3 Could advertising carry the right message?

- In general, advertisements work best when they carry a concise message. For example, highlighting the thing that distinguishes your company or brand from your competitors, reinforcing the main benefit of your product or conveying the impression that you are a 'good' company

- The form of the advertisement may physically limit what you can say
- For example, banner advertisements on websites work best if your message can be boiled down to three or four words

Your advertisement, and the media in which you advertise, must suit your image.

### 2.4 Would advertising work within your timescales?

- Preparing an advertisement for publishing or broadcasting can take time, depending on the media

### 2.5 Are there cost-effective alternatives?

- Depending on your target audience and advertising objectives, other forms of promotion may be a more effective use of your budget. For example:
- Direct mail with a mailing list that more closely matches your target market
- Personal selling to build relationships with high-value customers. Merchandising, packaging and point-of-sale materials for consumer purchases
- PR for building your reputation over the longer term
- Trade exhibitions and conferences
- A website promoting your company

### 3. The budget

Deciding how much you should spend is as much an art as a science.

#### 3.1 How much do you normally spend?

- How much did you spend last year, and how effective was it, in relation to your business objectives?

#### 3.2 What are your competitors doing?

- If your competitors are advertising heavily, you may need to match their budgets to ensure that your message is heard
- If a new competing product has been launched, you may need to fight off the competitive threat

#### 3.3 How far are you from achieving your objectives?

- If you are launching a new product into a new market, you may need to spend heavily to achieve customer awareness
- If your product is already well established, you may only need a few advertisements to keep up 'front of mind' awareness

#### 3.4 What is your advertising worth to you?

- What sales margins do you make and how much repeat business can you expect?
- What is the lifetime value of a new customer?

- Are you considering a brandbuilding investment? Are you planning a short-term sales drive or longer-term awareness?
- How effective do you expect your advertising to be?

Check that your budget is realistic. How many extra sales do you need to generate to justify your spend?

#### 3.5 What media can you afford to consider?

Your choice of medium will affect budget decisions, as there may be a minimum threshold of spend to be effective.

### 4. Media selection

Identify your segment of the market and decide which media best reach your target audience.

#### 4.1 Finding advertising media is straightforward though the choice of media is now vast.

- Look at the possibilities, and observe where your competitors advertise
- Consider traditional, new media and non-mainstream methods
- Ask a selection of people from your target market what they read and watch

- The choice of publications in some sectors is huge. For example, there are over 200 computer and Internet magazines, each with its own distinct and loyal following
- Consider the use of a specialist media buying agency to help you

4.2 Ask newspaper and magazine advertising departments for media packs.

- Look for circulation figures

Examine advertising rates for different sizes and types of advertisements and different positions.

4.3 Choose the media that match your needs. Ask yourself some key questions.

- How many members of your target group read a particular publication or visit a certain website?
- Does the publication or site have the right image for your advertisement?
- How much will your ad cost to produce?
- How much will the ad cost to run?

4.4 Investigate the scope for negotiation.

- You might get a big discount for taking unsold ad space at the last minute
- You might be able to have a larger ad or a better position for the same price

- Extra discounts may be available for repeat advertising
- You may get free PR if you run an ad
- Smaller media (eg local papers and trade press) are usually more open to negotiation

### Typical media uses

Advertising in a local newspaper, if you are a local plumber or an estate agent.

Advertising in a catering trade magazine, if you are a food wholesaler. A display ad in a directory to make your TV repair service stand out when customers are looking for one.

Displaying cards in shop windows and putting them through doors, for your local taxi service.

Classified advertising in an alternative health magazine to attract customers to your acupuncture training courses. Sending out leaflets with a reply coupon for more information on your interior design service.

Your own website to make your 'write-your-own-will' legal service visible to people searching the Internet for suppliers. Banner advertising on a parenting website to lead customers to your online toys catalogue.

### 5. What and when

What you are trying to achieve is central to your strategy. Your objectives will-determine what aspects of your product or service you should highlight and when you should advertise.

5.1 Your advertising campaign is just one part of your marketing strategy. Make sure it is suitable for your product or service. For example, ads to generate immediate sales are not effective for products that require demonstrating, or that need special skills or knowledge to operate.

5.2 Your strategy should be based around promoting a single, solid benefit. It is not enough to say 'the best' or even 'free'.

- You must know what motivates your target audience
- Make your message stand out and make it simple

5.3 Consider the timing of your campaign.

- When are your target customers likely to be most receptive to your ad (for example, for seasonal purchases)?
- Plan well in advance. Some publications get booked up many months ahead
- When do you want your targets to respond and what is the likely lead time from advertisement to action?
- Will you be able to handle the response? For example, will you have enough brochures and suitably trained employees to handle the enquiries?
- Make sure your response is professional and carefully planned

### **Advertising agencies**

As a rule of thumb, consider using an agency if you plan to spend more than SAR10,000 on advertising.

Typically, agency fees will amount to around 15 per cent of your advertising budget. Agencies can usually negotiate discounts on advertising that will reduce the cost by ten to 15 per cent.

Look for an agency that has experience of your industry or type of business. Consider an agency that deals in other forms of promotion (e.g PR) as advertising may not be the only answer if your budget is limited. Ask agencies to prepare a 'proposal' for your business.

Give them a brief, explaining what you are trying to achieve. They should be able to suggest: Where you should advertise. How much you should spend. Ask them to confirm that they would pass media-buying discounts on to you.

### **6 Measuring effectiveness**

Measure the effectiveness of your advertising in terms of your objectives. If your strategic objective is to raise the profile of the company, you will probably have to carry out market research studies to find out about customers' attitudes. If your aim is to create sales, you should be able to measure response fairly easily and cheaply.

6.1 Most of your sales advertising can be monitored simply and directly.

- Always ask new enquirers how they heard about you
- Use coded advertisements
- Ask enquirers to quote the code when they respond to your ad
- You will be able to trace which ad generated the response
- Use reply coupons. You will be able to trace the source of the coupon, as well as obtaining information on the potential customer
- Make use of the readers' reply services in trade journals

6.2 Calculate the total costs of your campaign and weigh them against the response.

Your advertising will not be effective if it is not backed up with trained staff, brochures, adequate stock levels and the ability to live up to the promise of the ad.

- Make sure you have allowed for all the likely costs. For example:
- The cost of buying advertising space

- Design costs, including print preparation. Brochures and other literature
- The fulfilment cost (goods, postage, delivery, employee costs and so on)

6.3 Some ads may generate many responses but convert few to sales. If your conversion ratio is poor, something is going wrong.

- Review your brochure or followup literature. It may not provide enough information or live up to the promises made in the ad
- Check the employees who are handling the response
- Telephone staff may not be sufficiently trained in the right areas
- Re-examine your price structure. The price you are offering may be unsuitable for your target market

Advertising which leads to a large number of enquiries that do not convert into sales

# Your business and the environment

will work out very expensive per sale. Your business and the environment We are all concerned about the environment, but most of us prefer to believe it is someone else's problem. Such complacency can be costly. As a minimum, you must find out how environmental legislation affects your business. At the same time, being environmentally aware can lead to cost savings and give your business a significant edge over your competitors.

## This briefing explains:

- Why you should be concerned about environmental issues
- How to decide what you need to do
- The action you need to take to improve your performance

## 1. Why should I bother?

1.1 In recent years, the volume of environmental legislation has mushroomed.

- Breaking the law can carry serious criminal and financial penalties, as well as generating bad publicity. Planning ahead to take account of new environmental standards can minimise the costs of modifying or replacing equipment and updating working practices

1.2 Good environmental management can bring substantial cost savings. For example, in raw materials, waste disposal, energy and transport.

1.3 Increasingly, customers prefer to buy from environmentally responsible businesses.

- Many large companies are 'greening' their supply chain

Some will buy products only from suppliers that satisfy strict environmental criteria.

Many consumers will pay a premium for environmentally friendly products.

1.4 Business partners are increasingly looking at companies' environmental profiles.

- Banks, insurers and other sources of finance may avoid businesses that do not take environmental matters seriously and expose themselves to unacceptable risk. For example, an audit of contaminated land may be required in order to obtain a commercial mortgage.

1.5 It is easier to recruit employees.

- Many are better motivated when working for an environmentally responsible employer

1.6 Failure to act in an environmentally responsible way can bring you into conflict with other people - for example, the local community and pressure groups.

### **Threat to small firms**

The sharp increase in environmental legislation over the past few years means that businesses that ignore the issues are more likely to face prosecution. But prosecution is not the only threat. As awareness of the issues increases, environmental compliance is being passed down the supply chain. Larger companies are now more likely to insist that suppliers demonstrate environmental compliance and good practice. A supplier without a recognised environmental management system may be removed from the preferred supplier list and may suffer serious loss of business as a result.

## **2. Environmental review**

An environmental review establishes which issues affect your business. You can carry out the review yourself, ask your local business support organisation, university or college for help (often available free) or use an external adviser (see 3.3).

The review should cover five areas.

2.1 What environmental impact does your business have and how do you manage it? Can it be managed more effectively?

Key areas to consider include:

- The raw materials you use and the products you make (see 4)
- The waste you produce (see 5)
- The energy you use (see 6)

- Any discharges or emissions from your business (see 7)
- Storage and movement of materials
- How any previous incidents were handled
- The environmentally responsible credentials of your business investments and pensions

Even small office-based businesses will have an environmental impact –for example, the paper and toner they use, their electricity and heating, and transport.

2.2 What environmental risks does your business pose?

- What environmental damage could be caused if there was an accident? How likely is an accident?
- Are you located in an environmentally sensitive area (e.g by a river)?
- Do you offer advice, or manage contracts, that could result in a third party causing environmental damage?

2.3 What environmental standards and regulations apply to your business, now (see 3) and in the future?

- What policies and legislation are being developed by the Government that might affect your products, supplies or operation?

2.4 What do customers, employees, suppliers and others expect of your business? For example, do customers want green products? Do they expect you to use an environmental management system that meets an environmental management standard?

- Sending out questionnaires can raise expectations, so informal consultations may be more appropriate

2.5 Does your insurance policy cover environmental risks? Once you have completed the review, draw up an action plan for dealing with any shortcomings in your existing systems.

Include a timetable of when action should be taken and state who is responsible for ensuring that your targets for improvement are reached.

### 3. Environmental legislation

Although environmental legislation is complex, finding out what you need to know is not.

3.1 The fundamental rule is that businesses can be held responsible for any environmental damage they cause.

- There can be serious financial consequences for your business.
- Fines of SAR5,000 or more are not uncommon. In some cases, there is no limit to the amount you can be fined, and you could receive a prison sentence

3.2 The extent of legislation affecting your company depends on your type of business. For example:

- In general, there are less environmental regulations for office-based businesses. However, the duty of care for waste and the special waste regulations for items such as fluorescent light tubes and solvents still apply
- Manufacturers must show that they have identified major accident hazards to the environment and have taken steps to prevent them and limit any consequences
- Businesses that have a more direct impact on the environment (e.g agriculture, transport, chemicals, construction, and manufacturing) are more heavily regulated

3.3 Several organisations can provide advice on the detailed legislation that affects you.

- The local branch of the Environment Agency, your local authority, your trade association and other sources may be able to provide informed help (see 8)

- Environmental consultants and solicitors can explain the law to you

Many of these organizations can also help with your environmental review.

#### **4 Product management**

Environmentally responsible products and production processes offer marketing advantages.

4.1 Design products and processes to reduce the use of resources.

- It is often cheaper to buy less material than to waste and dispose of it

4.2 Design products for re-use.

- Make products that can be reused, repaired and easily recycled

4.3 Use recycled and recyclable packaging.

- Businesses with an annual turnover of SAR2 million or more that handle more than 50 tones of packaging per year are legally required to 'recover' and recycle a percentage of their packaging waste
- Ask for advice (see 8)

4.4 Use environmentally responsible materials.

- Avoid using scarce natural resources
- Avoid buying supplies with excessive packaging
- Avoid materials that produce toxic by-products when processed

4.5 Use environmentally responsible production methods and machinery.

4.6 Use appropriate labelling.

Inform customers how your products and production processes take account of the environment and how to recycle or dispose of products properly.

#### **5. Waste management**

You have a legal responsibility to ensure that your waste is handled properly.

5.1 The best form of waste management is waste minimisation.

- The costs of waste disposal have increased significantly over the past few years and this trend will continue
- Explore opportunities for elimination, reduction, re-use, recycling and recovery before disposal

5.2 You must store waste safely and securely.

- Store waste in suitable containers which are clearly labelled and ensure waste cannot escape
- Store normal and hazardous waste separately. For example, fluorescent tubes are hazardous waste and should not go in the normal bin

5.3 You must ensure that the person collecting and disposing of your waste does so properly.

- Check that your collector has a license from the Environment Agency to collect or transport waste
- Make sure the carrier disposes of your waste at a site that is licensed to accept the type of waste your business generates
- Fill in and sign the relevant transfer or consignment notes and keep a copy for a minimum of three years

## 6. Energy efficiency

Energy costs, in an office environment, can be reduced significantly by adopting good housekeeping measures.

6.1 Encourage your employees to save energy.

Switch off all lights and all possible appliances when they are not in use. Reduce expenditure on heating by closing all doors and windows, and investing in adequate draughtproofing and insulation.

Ensure that thermostat systems are seasonally adjusted and working correctly.

6.2 It may be worth investing in new, more efficient equipment (see 4.5).

- The short-term costs can be outweighed by the long-term benefits

6.3 If your present energy consumption is causing concern, consider an 'energy audit' which can help identify the most effective uses of energy in your business.

## 7. Discharges and emissions

7.1 Discharges of effluent are strictly controlled.

- Ordinary domestic effluent (i.e water) can be discharged into ordinary sewerage drainage (unless you discharge excessive amounts)
- You must have consent from the local water company before discharging anything else into a public sewer. For example, a jeweller who electroplates silverware or a health club that wants to pump out its swimming pool should contact the local water company for advice and consent
- Accidental or careless discharges are your responsibility. You may be prosecuted even if it is not your fault.  
For example, if your oil tank leaks or a contractor spills chemicals or fuel onto land

7.2 You may require authorisations for any emissions into the air from your business.

- You will have to comply with the terms and conditions of the authorisations
- Unauthorised emissions may lead to prosecution
- If you are in any doubt, check with the local authority and the local branch of the Environment Agency

7.3 Take into account the effect of your business on local people.

- This can include not only discharges and emissions, but also noise, litter, dust, smells and so on
- Transport to and from your business can be a concern (e.g lorry noise and fumes)
- Local authorities have powers to protect people from nuisance caused by businesses

