

# TEN WAYS TO KNOW IF YOUR CRYSTAL BALL IS WORKING



By Bob Palmerton, CFO

Whether you have an informal notion of where you are taking your business or a formal plan based on sound business practices, your business vision will inevitably be subject to distortion by “rose colored glasses”. To achieve long term success, however, you must be willing to acknowledge real data about your company’s performance and adjust your direction accordingly. Business plans are not static; they are dynamic and continuously altered by circumstances. As you build your company, you will travel paths of successes and failure that lead to forks in the road, and as Yogi Berra once wisely said “When you get to a fork in the road, take it!” But which way should you turn? Your vision must be clear as you consider your options. You need sound information to tell you what’s working well, what parts of your business need to get better, and what is most likely to be effective as you move forward.

## #1 Find Time

Keeping your head down and rowing hard for the benefit of the team is admirable; however, hard work alone won’t grow your business to its maximum potential. As difficult as it may seem considering the long to-do list in front of you, you must find the time to think calmly and objectively about your business model and its sustainability. You must step back to analyze your company within the big picture and in the long term. You must look past the symptoms that you can easily see and find the underlying causes of your issues, one of which is probably not having enough time to perform your key role because you are attending to other urgent matters that would best be handled by someone else. Key Note: Delegate tasks that others are capable of doing, and focus your time and energy on working toward your brilliant and evolving vision.

Approach: Set a time in your planner for a regular “vision session”. Keep it as an important meeting that can’t be missed. Protect it! Your business might depend on it.

## #2 Fundamentals

While every business is unique, certain basic principles apply to all. Your product needs to solve a real problem in your target market, and it must do so in a

way that is unique, cost effective for the customer, and profitable for you. Internally, you must have adequate capitalization to fit your strategy, effective cash flow management, and sound operational policies and procedures. By avoiding the development, implementation, and testing of these fundamental business principles, you are only delaying their inevitable necessity.

**Approach:** Make a list of the most critical parts of your business model and plan, and make sure that you are addressing and monitoring those items every day. Make a list of any key issues and be sure that your business vision addresses each of them. Execute on the plan to address those issues, otherwise you will be dealing with them at some future date. Guaranteed.

## **# 3 Forget the Numbers**

Most strategic planning processes start with a **spreadsheet** and endless columns of numbers, but you should actually leave this until the very end of the planning process. Think about the customers and potential customers that make up your market. What does the market need and what is the size of the market? How do you know what those customers need? Have you validated that your solution solves their problem, and is your solution better than anyone else's? How can you expand or evolve your products realistically? Will your current or future products continue to meet the needs of the market in the long term so that you can maintain profitability and grow your business? Only after you have validated the core hypotheses of your business model and investigated its future viability, should you begin to create your financial forecasts.

**Approach:** Think of your products in terms of how they differentiate from other solutions, the level of that differentiation and the barriers that exist for others to copy your solution or create a better one. Write these comparisons down. Involve your leadership staff. Everyone in the organization should know what differentiates your company from the competition.

## **#4 Benchmarks**

Once your plan is in place and you begin to measure results, it is critical to measure those results correctly in order to extract the key information that will tell you how to move forward most effectively. The metrics that you pay attention to should be the ones that measure the key drivers, also known as key performance indicators (KPI's) of your business. Most businesses rely solely on the monthly accounting reports that track the basics without looking at the specific metrics that are having the most impact on your bottom line. For example, measuring revenue is not valuable alone – you need to know how much it costs to get that revenue per product and per customer segment. It takes detailed analysis to determine what metrics will tell you if you are on the right track to achieve your short and long-term goals.

**Approach:** Track those numbers in your daily affairs that directly relate to achieving your long-term goals. Each department and each individual in your organization should be involved and drive towards meeting those daily and weekly goals.

## **#5 Customer Behavior**

“It don’t mean a thing if it ain’t got that swing” as the old Duke Ellington song says. If your customers are not buying and using your product continuously, you are not going to be successful. You have to measure how your customers are behaving. You are in business because you have a solution to a problem that your customers have, but if their problem changes or their perception of your solution changes, you need to know immediately so that you can adjust your strategy accordingly. You must constantly challenge your own assumptions to make sure that you are refining your solution to give your customers what they want. Your customers are constantly challenging you, much better to do it yourself in advance of their finding a better solution!

**Approach:** Identify a way to gain that important feedback, be it a focus group, customer meet and greets, or surveys. By observing your customer behavior, you should be able to make adjustments before customers leave to find another solution. If they leave first, you will have to win them back, which will take more time and money.

## **#6 Get Out of the Building**

One of the basic principles of Steve Blank’s Customer Development process is “getting out of the building.” You have to get out and talk to your customers and to your potential customers. While your sales staff can tell you what they are hearing “on the streets”, there is no substitute for direct customer contact to help you craft and execute your vision. Your customer facing employees may only tell you what you want to hear – only you can hear what customers are saying within the context of your overall vision. The direct information that you get from real people is critical to developing and refining products that will continue to meet the needs of your market. If you are not getting to know your customers and finding out what they need, someone else is!

**Approach:** Schedule time to do ride-alongs with your sales associates. Call your best customers and find out how they’re doing. Take an occasional customer service call or two. These personal touch points will give you insight into many areas of your business like your delivery systems, your customer service, your billing. You can’t address problems and misalignments from your vision if you aren’t having regular contact with your customers.

## **#7 Perspective**

Knowing your business is important, but not knowing the rest of your industry and how you fit into the larger market can be disastrous. The direction of your vision has to coincide with the direction that the outside world is taking. Especially for entrepreneurs that have limited employment experience anywhere but their own firm. You must gain perspective in other ways. External forces will affect even small, localized operations; therefore, any business vision that lacks perspective and ignores the big picture is fundamentally flawed.

**Approach:** A great way to gain perspective is by joining the Board of another firm. Or participate in a peer group like Vistage. By learning of other company’s challenges and opportunities, you will earn perspective as you mentor and offering your expertise to another business owner. You also have access to information twenty-four hours a day to news outlets, commentaries, guides, advice blogs, books. Be hungry, embrace continuing education and stay informed.

## **#8 Don't Buy Your Own Act**

Many entrepreneurs fail because their grand vision gets in the way of a clear view of reality. When you started your company, you had an idea and you created a plan, but no plan is ever perfect or carved in stone. You must constantly challenge your own assumptions about your market, your product, and your business model. No matter how reasonable any part of your plan seems, you can never be certain that it is correct until you test and validate your assumptions. Test, learn, refine, and test again, and do so from the very beginning. What if you build an entire infrastructure based on a key assumption that turns out to be wrong? Your plan has to be dynamic and adaptable, so that when something is not working you can make adjustments while you are building your business, not after. You will minimize wasted time and other resources, and give yourself the greatest chance of success.

**Approach:** Develop a trusted advisory group that will give you feedback on business and product decisions. If your company is big enough, you likely have a board of directors that can help you test and validate your assumptions. Putting together an outstanding board and/or a team of advisors is crucial to testing your assumptions. Friends or close colleagues may seem like good choices, but they tend to be comforting and reassuring which is not what you need. You need straight shooting, honest, sound advice. If you are constantly testing your business model step by step, then when something fails, you will learn from it fast and refine your strategy faster.

## **#9 Entrepreneurship is a Team Sport**

You hire people based on their knowledge and experience, so use it! Having your team involved in crafting and executing your strategy has two main benefits: 1) You get the obvious value of perspectives other than your own and 2) When they are involved in the vision, they understand the ultimate goal and have a vested interest in making it succeed because they helped to create it. They will be motivated and they will stick with you for the long haul.

**Approach:** Schedule a strategic planning session with your team. If you can afford it, hire an outside facilitator that will manage the process. The key to this exercise is that all parties have an opportunity to be heard and feel they contributed to the process. By using the input of your team, you are also creating an environment that encourages creativity, which will lead to innovation. In an ever-changing market, constant innovation is critical to sustainability.

## **#10 Connect your Numbers with your Strategy**

An investment banker presenting a workshop for business owners on the topic of "How to Maximize the Value of Your Business" started off by asking the group, "How many of you have a CFO?" Most of the 300 attendees raised their hands. He looked out at the sea of hands and replied, "Now, I'm not talking about a controller that does your numbers. I am talking about a real, forward looking CFO who connects your strategy with your numbers." Almost all of the hands went down. He calmly

replied, “Just so you all know, it is impossible to maximize the value of your business without a true CFO who matches your strategy to your numbers.”

**Approach:** The days of only large companies being able to have an onsite, embedded, CFO as part of their management team are over. Fractional CFO groups have emerged over the past 20 years as an affordable resource for businesses of all size. Companies as small as 5 employees or \$1 million in sales can now have access to a highly experienced CFO who has the skills to map out the financial roadmap for your company.

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