The EXECUTIVE FORUM Renaissance FORUMS

Renaissance **EXECUTIVE FORUMS** FALL 2002

Business Principles for Good Times and Bad

by Ken Keller

Many businesses are facing troubled times. As some are battling to stay alive, still others are trying to avoid slipping backwards by holding on to what they have. The temptation to cut corners appeals to far too many, and many have tarnished their businesses as a result.

While it is true that the overriding principle of business is to make a profit, this does not mean that it is the only principle in business. In these challenging times, I want to provide employees and owners in businesses, government agencies and nonprofits with some principles that will create organizations of character. These principles will enable you to keep your head in the game when others may be losing theirs!

The first principle is to focus on the mission. Every successful organization has a mission statement that is simple and focused. Furthermore, the entire staff knows and executes the mission, whether it is in the little tasks or the big decisions they make daily. Larger organizations even have departmental mission statements. Unfortunately, most small businesses don't know what a mission statement is, and that is one of the reasons that they struggle, as the employees think that they work to make the owner wealthy!

The second principle is to have a vision or destination. For far too many businesses, the vision lasts until the end of the day, week, maybe the month or even the year. But for businesses who are going somewhere, their destination moves towards that vision in both the good times and bad. The process of creating a vision isn't a difficult one. People do it all the time, whether it is on their birthdays, at New Year's, or the start of a new school year. Creating a vision is important, too, so that the organization can move forward towards accomplishing those goals.

The third principle is to treat people with dignity. This includes your customers, clients, vendors and employees. Being kind to people costs nothing and pays dividends far beyond what you could imagine. Remember the little people in the organization who perform the basics and are never recognized for the valuable work that they do. Security guards, cleaning

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What's Inside

What's Your Company's Growth Potential?

by Chris Risey

Could you double, triple or quadruple your company's revenues over the next five years? A study published by The National Commission on Entrepreneurship (NCOE)[1] found that less than 5% of all companies generate annual growth of greater than 15% per year over a five-year period. The study also states "flying in the face of conventional wisdom . . . high-growth companies are found in high-technology sectors . . . fast-growing, entrepreneurial companies are widely distributed across all industries." This means that all industries including non-technology segments like retail, business services and manufacturing provide high growth opportunities but few companies actually generate substantial revenue growth. A key reason is that very few companies develop growth plans that effectively tap their real growth potential.

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The typical planning mindset. The most common business planning approach for companies (particularly those in non-growth industries) is to develop a growth strategy under the following guiding questions: (1) "How much capital do we have?" (2) "What needs to be done?" and (3) "How do we allocate that capital across the different opportunities?" From the outset, this approach limits the company's growth strategies to only those initiatives suited for the company's current capital structure. That limitation can be significant especially for small and middle market private companies that have limited access to additional capital.

High growth planning. To plan like a high growth company, take a deep breath and ask your management team, ***"What would we do if we had all the money necessary to grow our business to its full potential?"*** From this exercise management should uncover a whole list of new and exciting growth initiatives. New strategies not previously identified may include: (1) horizontal or vertical company acquisitions, (2) new product/service launches, and/or (3) broader, (possibly exclusive) supplier or customer relationships. During this part of the planning process any initiative that increases top-line revenues and profitability are fair game.

Prioritizing strategies. Once the brainstorming is complete and some very exciting, plausible growth opportunities have been identified, management should develop more detailed growth scenarios that quantify the anticipated revenue potential and resources required to launch these initiatives. In choosing its strategies management should also identify the long-term strategic advantage of each initiative. Ideally management should develop strategies that help to further differentiate the company's product or service as well as improve the company's defensible market position against competitors.

Planning reduces company risk. After identifying different scenarios management should then develop financial projections to determine if any additional financing is required to implement the growth plan. Many companies mistakenly believe it is less risky to use internal resources to implement their strategies. However, if the growth plan goes off track once launched, management could put the entire company at risk and find it very difficult to seek additional financing at favorable terms. By doing thorough up-front planning and seeking outside partners prior to launching the growth plan, management can effectively reduce the company's overall business risk while also pursuing specific growth initiatives.

Outside financing. As stated at the outset, high growth companies exist in all businesses, not just select high growth industries. Recent financing transactions show that institutional investors and investments banks also support growth in diverse industries. Thus, despite the doldrums for traditional venture capitalists, the current capital markets for established businesses in even basic industries like business services and manufacturing are significantly more robust. Further, to provide attractive financing alternatives to these companies, professional investment firms are increasing their use of customized financing products like subordinated debt and mezzanine financing. These financial products provide greater liquidity than bank debt and are also far less dilutive to a company's current ownership than traditional venture capital.

Putting it all together. If you and your management team have high growth ambitions, make sure you utilize a planning methodology that matches your growth aspirations. Companies that consider all strategic alternatives, refine their strategies with good prudent planning and work diligently to realize their well-thought out plan will consistently build substantial value for all their stakeholders over the long-term.

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1 "High-Growth Companies: Mapping America's Entrepreneurial Landscape," July 2001, Study completed by National Commission on Entrepreneurship. Based on review of US Census data for several hundred thousand companies in existence from 1992-1997.

Finding More Profit: Look Inside *continued from page 6*

level of detail. Review the A items and develop an understanding of their drivers. How many of the B items can become A items in terms of inventory turnover? Look at the C's and ask how many can be eliminated as active items. Assign someone the task of reducing the investment in slow moving and inactive items. Cash tied up in those items can be a "windfall" benefit for your balance sheet.

Reviewing the purchasing and inventory areas within your company can provide significant opportunities to increase profitability quickly and without more investment. Look inside - you may be surprised at the results.