A Well-Run Company Makes Money

A well-run company makes money in all types of markets. This paper describes how to keep your company running profitably.

Keep Everything Clean
UPS is a worldwide leader in the package delivery business. Their trucks are always clean and not in need of repair. By keeping your business and office clean, you are giving the message to your employees and customers that your business has value and is to be respected. The time and money required to do this is minimal, and the benefits are significant.

Organize – Throw out and File
Fresh eyes can make a big difference; you know the old saying, *you cannot see the forest for the trees*. By organizing and throwing out and filing all the many efforts you are going to get back to, you can create a space that will allow you to see how your company is doing. Nature abhors a vacuum; we fill our day with stuff so we feel comfortable. The problem is that all that stuff does not leave us any room to be able to deal with changing business conditions.

Diversify, Diversify
Diversification is critical to a well-run business. If you depend upon one of anything in your business, sooner or later, that one thing will be gone and your business will be at risk. That goes for the employee you can't do without, to the customer you can't do without. Just as in financial management, you need to manage your sales so that the revenue comes from multiple markets, so if one turns down, others will continue. This, combined with a good business plan to re-allocate your company resources as markets change, will keep your company in the green.

Have a Plan
Plan quiet time every day, 10 - 20 minutes, to think about what your company does well. Consider how its resources can be used in other ways to diversify your revenue stream and minimize risks if any specific market takes a down turn. If you have a plan, then you will be able to get there. No plan and you are exactly where you are going to be, which is where you are now. There is no silver bullet when choosing a plan. Many times you need to go through several before you find one that works for you and your company. The answer is to "stand the line", and listen so you know when a plan is working or should be abandoned so you can use your energies and talents on the next plan.

Take the time to write down your plans so you can have peace of mind that it is written, and will be easy to review to see if it still holds up, because it is written and does not depend upon your memory. Unfortunately (or fortunately) we have a selective memory and tend to forget the bad and only remember the good. By writing down a plan, it acts as a base that you can go back to with little effort and off which you can build. If it is not written, you need to re-invent the plan every time. We learn more from our mistakes, then our successes. Having a plan lets that happen.

It's the Margin That Counts, Not Sales
A truly successful company makes good margins. Sales or revenue coming in is a measure of how busy you are. The amount of that money that you keep is a measure of how successful you are. If you have lots of sales, with little or no margins, it just means you are working hard, long hours with no profit! Not good. Many companies never say "no" to work. That is not a bad thing as long as you make a good profit. Otherwise, you are tying up company resources that could be making profits in productive but non-profitable

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work. Determining which work to turn down, or for which to change the price, is the most important thing you can do.

Find and Remove/Fix Marginal Accounts
In a slow economy, you need to be critical of your customer accounts and adjust so that you get rid of your loss leaders. A loss leader is an account you service that does not generate profit or actually costs you money to service. These are often large accounts with many service locations to whom you have given a “special” price in order to keep the business What you can fail to realize is that the overall cost to service this large account eats up any profits and ties up all your company resources, so you cannot do other work that does generate a high margin and more profit. If you run a truck an average 6 loads a day for 10 loaded labor hours this typically costs you $1300 ($100/hr + 30% material/disposal costs). If you get $300/load gross sales you gross $1800/day. If one of the loads cancel, your gross revenue is now $1500 and your costs are still about $1300, so you’re before-tax gross profit is $200/1500 or 13% or $20.00/hr. You could work at a fast-food restaurant and get $20 an hour and great benefits. It’s all in the margin.

Find and Remove/Fix Marginal Employees
As we all know, all employees are not equal. The difference comes from each employee’s view of the benefits of the work to their personal lives. Your company depends upon you to openly rate and reward those that are productive, help solve problems rather than complain, and work towards maintaining customer satisfaction and growing your sales. As difficult as it is, you must communicate your company’s operational standards so people know what is expected of them and how they’re rated. It is not an easy choice to lay off a person. Work is critical to almost everyone’s view of their value. Laying a person off is a significant event that puts significant stress on you as an owner. To be better prepared for a down market, you need to rate everyone in your company, and you must have an employee layoff plan, with fixed trigger points to reduce your costs of doing business to maintain your margins. A difficult, but conscientious effort is to ladder everyone in your company and pick points at which they would be laid off. This should be done all the way to the point at which your business has to close down. By knowing this, you will be empowering yourself by understanding how you can best manage these resources to keep your company profitable.

Pricing and Cost of Service
Price and cost have nothing to do with one another. Customers never ask, “What are your costs? Let’s mark up the costs by 30% and that’s what I will pay you.” No, they ask for the lowest price and the highest level of service that you can provide. It is up to you to combine work and company resources to supply the highest level of service at the lowest cost. In addition, there are all those other companies offering still lower prices, and low and behold, they are not asking if that process is fair to your costs. There are many traps in pricing your service; the leading ones are:

1. If I give you all my business, what’s your lowest price?
2. You can be the sole provider for all my locations, located everywhere.
3. Give me a good price but I will not pay you in a timely fashion.

All three are customers’ ways of getting you to commit to a service level without regard to the cost and the differences in associated margins. In other words, you are working for next to nothing. Remember, if it’s free, it is usually worthless.

Minimize Outstanding Receivables
It’s your money, collect it. In a changing economic environment, it s best to stay on top of your outstanding receivables, as you never know when your customer might go out of business. By staying on top of receivables, you can cut your operational losses by not servicing customers who will never pay you, and use those resources for real revenue opportunities. Collecting past due monies is not on most people’s “Top 10

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List" of the things they like to do. If you want to succeed you have to do just that: make it one of the 10 things you *always* do. This way you can get paid for the work you do, and as an added benefit, you lower your office costs trying to chase bad outstanding receivables. A good rule of thumb is to stop service on all accounts 90 days past due. When active outstanding receivables exceed two months' billing, you need to take other action.

Invoicing
The single biggest problem with small companies in the waste business is the failure to invoice for work completed. Usually, smaller companies use paper and pencil or generic accounting packages because the start-up costs are low and low-risk. This works fine in the beginning by spending HESS (Holidays, Evenings, Saturdays and Sundays) doing the paperwork. The problem is that this also takes away from life, and eventually family pressures cause you to let the invoicing slide. This has the negative consequence of raising your costs for work done (but not invoiced), and forces the company to seek more work, and sometimes to lower prices to meet financial pressures. The answer is to invoice PROMPTLY and invoice EVERYTHING. Remember, your company's revenue comes to you by invoicing.

Balance Your Books Monthly
Money is a difficult subject. When it comes to money, people do strange things, and it is always best to hire a bookkeeper to review your expenses every month and objectively report on the state of your business. It is difficult to share the personal financial details of your business with a stranger, but call around and you will find someone who will help you "know" how your business is doing. As you learn about tracking your company's expenses, you may have to change bookkeepers in order to find the person that can understand and track your business costs. By knowing your costs, you can manage your company to stay in front of the red ink.

Manage Your Debt
Debt management is a significant tool in keeping your company the lowest-cost provider. Being debt-free is always good, but a reasonable debt that supports low-cost operations allows you to leverage good business practices using other people's money.

Pay Attention to Production and Financial Reports
Many business owners are busy reacting to each day's issues. Spending all your time on "emergencies" gets in the way of learning how the company is really doing. There needs to be time set aside on a regular basis to look at productivity and profit. These numbers, over time, can show how healthy the business is and can provide an early warning to possible problems.

Have Clear Operational Standards
Rules of thumb for your business are critical in establishing balanced production standards that you and your employees work to achieve to keep your company profitable. By setting, monitoring and reporting on production levels, you can have everyone in your company focused on lowering your cost of doing business and maximizing your margins. Keep in mind that it is the productivity of your company that determines the cost and associated margins. Lowering your costs is the same as raising your prices. Some numbers to look for in your business are (1) Units per hour, (2) Revenue per truck/driver (3) Sales calls per day (real calls), and (4) Gross profit per work order, driver, service location, customer and\or market segment. The trick is to get and keep high margin work and avoid low margin work.

Lower Your Costs
It is amazing how much money is wasted in a company by not paying attention to the small items that can rapidly add up and be significant cost drains on your company's margins. First, rank your expenses high-to-

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low and act on the 20% of the suppliers that generate 80% of your expenses. You will be amazed that, if you ask, your suppliers can offer alternatives to help reduce these costs. Next, go after the discretionary items by limiting who can spend money, and require a paper trail, i.e., receipts and expense reports. The purpose behind this effort is to raise everyone's awareness to keeping expenses low so that company margins stay high. Remember, if you watch the pennies, the dollars take care of themselves.

Listen, But the Choice is Yours. The Buck Stops Here!
It is amazing how many people have opinions about how you should run your company when they have nothing at risk. They are driven by self-interest and personal gain. Do not hold this against them. They are doing for themselves, just what you do for your company. The opportunity is to listen for any good ideas and select what you CHOOSE TO USE, and move on. Opinions without risks are just talk; until there is a downside to making a choice, it is not real. It is the difference between playing monopoly with little green and red houses vs. buying a real house with real taxes, repair bills and real tenants with problems.

Know that Change is Tough
Over time we have become successful because of the time, effort and commitment we put into running the company. These methods and tools have worked. We are hesitant to change from what has worked and we feel comfortable with, to something else that we do not know, understand or feel in control of. Many of us find it very difficult to change tee shirts, let alone company operations. When we first started out, we were driven by need, desire and wanting to find a place. Change was also challenging, but we did not know better. Now you have to let go of something, so it is twice as hard. You need to let go of what has worked, and start something that is not proven. Change is "tough", but in change is the success of your company.

Make Changes Before Going Red
If you have a plan, you can make changes to your company as business conditions change. You have a trigger point and you've made your choices. You can manage your company resources so that, as the economy changes you stay in front of the decline, lowering your operating costs, re-adjusting work loads in increments, so that you stay in control. Waiting until revenue is less than expenses is letting the market run your company, rather then you. Knowledge is power, and if you know what is happening, you can do something about it. If you ignore it, you will be swept away by change rather than directing it.

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