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Guiding Business to Success

A Business Diagnostic During Tough Times Can Create a Competitive Opportunity for a Business

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When a small business faces declining sales, it is time for a 'business diagnostic'. Management must embark on renewed efforts to improve operational efficiencies, assess business lines, and reassess overhead costs. Smaller, private businesses that undertake an objective assessment of their enterprise can improve product and process quality to renew and enhance their market position. This operational improvement and the reallocation of resources will create value for the company, provide access to capital and eventually help lead the company to renewed sales increases. The result of these efforts will be companies and an economy that are more competitive than ever.

How can a company's "sins" once disguised by increasing sales be addressed to improve operating margins and profits? First and foremost, management must be certain they are doing all they can to streamline operations. Smaller, private companies generally have a more hands-on perspective of their business than larger, public concerns. This hands-on perspective can - and should - allow for a continuous improvement in operations, but it also can create a perspective of the business that is too narrow and non-objective. Declining sales offer management the opportunity to reexamine their operations objectively, assess their efficiencies and business processes, and determine the long-term viability of their business. Unfortunately, too many companies try to continue with a business model that does not have long-term viability and blame outside conditions for their plight. A small business that recognizes the need to improve operational efficiencies will reap benefits from the reevaluation.

Most small businesses have a limited number of business lines. Some have evolved from the company founder's original concept, and others have developed as acquisitions or ancillary businesses. Periods of sales growth hide marginal businesses, but declining sales provide opportunities for management to assess each line with all of its flaws. Management
assessments of all business lines must focus on whether a line adds value to the core business. If so,
management must develop a strategy for salvaging and reenergizing the line, perhaps by a capital infusion to reposition it. If not, a strategy to exit that line expeditiously is critical. This analysis is the most important one an executive in a management position must undertake.

High overhead costs during times of declining sales is the third area small businesses must address. Often, management's first response is to reduce labor. In over-staffed situations or in highly labor-intensive businesses, this option may indeed be necessary. However, there are five operational areas successful management can and should also address to reduce overhead and improve products and processes: Product Quality, Sales Quality, Service Quality, Margin Quality and Supply Chain Quality. Focused efforts in each of these areas can wring costs out of production, improve customer retention and product demand, and increase production capacity. Each business has a unique and different way to address these efforts, but they must be focused and led from the top to be successful.

At the end of day, objective business assessment and improved operations performance will reduce expenses, add dollars to the bottom line and generate capital to begin investing in plant and equipment. Growth capital investment will stimulate the economy and improve the competitive position of any company that undertakes the business diagnostic process successfully.

About Compass Executives

Compass Executives is a Nashville-based group of seasoned, C-Level executives providing management consulting services to businesses throughout the southeast. For more information, visit www.compassexecutives.com.

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