

1.Introduction

In brief

My business goal is to love my work so much I can't wait to get there in the mornings. This means... loving my work, sleeping easily without worries, stopping fire-fighting, having customers raving, enjoying working with great staff, and becoming a symbol of excellence. This book is written from the trenches to help you achieve the same goals and make your own small business *great*, with...

- profits that zoom year after year
- employees that smile each day
- customers that rave about your work

You'll learn to control the detail, adapt constantly, and cope with a crisis through three key things: STOP, TALK, and ACT: go belly button to belly button with your customers, employees and other business owners.

How can you create a *great* business? You need...

- to learn from nature's evolution
- the eight principles of a great business
- the 4-S loop

The eight principles of creating a *great* business come from nature's own evolutionary processes. This will guide you through starting your business, transforming your business, expanding your business, and gaining and maintaining control of your business. You'll discover the 4S-loop - SENSE, SELECT, SMALL STEPS, STABILISE - to transform your business copying nature's own cycle.

'Belly Button to Belly Button' is a metaphor for the first and key principle - 'Maximise outside influence and external contacts'. This principle, derived from the first step of how nature evolves by recombining genes, is the top business transition driver. It lies at the heart of the 4-S improvement cycle or loop and is central to the TALK step in the STOP-TALK-ACT principle.

So you have started a business or about to start a business... If you are already in business, are your goals and ambitions being fulfilled? Are you working all hours for little reward? Is your future secure? Do you want to do better? Do feel under pressure? If you are about to start a business, do you know what it is really like and what you have to do to succeed and survive.

So is this handbook for you? It is fast, practical and easy to reference...ready made for a busy person like you! I set out to create a *great* business that I and my employees would enjoy and have fun with. My goal was:

To enjoy my work so much that I could not wait to get there in the mornings.

I have a chemical engineering and information technology background and have run a *great* small software business for over 20 years. When I unpicked how I operated my business, I was astonished to discover that I was following the principles of nature and genetics.

This handbook is written from the trenches, and will give you a practical set of principles with which you can steer your company to greater success and meet a similar objective to mine. I know what works and what does not: I'm a business person like you that is always trying to make my business better, stronger, and easier to manage. The book offers a complete and balanced guide to setting up and operating a *great* small businesses using an evolutionary approach based on the powerful principles of nature and genetics. It is packed with tips, techniques, checklists and methods to help you apply these principles practically.

Be patient. To transform your business using these principles is not an overnight exercise. It can take one to three years, depending on your starting point, and uses small cumulative steps.

1. What Do You Really Want?

Do you desire...

- more sales
- more profits
- sustained growth
- stability
- security
- more fun and challenge

If the answer is **yes** to any of these points, this evolutionary practical handbook will help you. The evolutionary approach described in this book has a great number of advantages:

- easy to implement
- low risk
- less stressful
- needs minimal capital
- market flexible and responsive

2. What Does This Handbook Offer?

Imagine...

- profits that zoom year after year
- employees that smile each day
- customers that rave about your work

Now imagine that you...

- **love** your work so much that you can't wait to get there
- **sleep easily** at nights and have no worries about money
- **stop fire-fighting** and start to make real progress
- **have customers rave** about your products and services
- **enjoy working** with a great bunch of supportive staff
- **become a symbol of excellence** in your field across the world

Whether you are starting a business or wanting to grow your business, this book is designed to put a **big smile** on your face. You're about to become a smiling owner or manager!

3. What Do You Need to Do?

My goal was to have fun and to enjoy my work, but I have found business stops being fun when things start going wrong: when you lose control. Control is all about managing risk. From my research and experience, in small businesses the major issue is **control** (75%), followed by **adaptability** (20%) and then being able to **cope with a crisis** (being also in control) (5%). To succeed in business you **need to master all three factors simultaneously**.

CONTROL THE DETAIL of everything you do
 ADAPT CONSTANTLY to your environment or market
 COPE WITH A CRISIS - large and unexpected events

Appendix One will help you make a detailed self assessment to **assess your potential** against these three factors, using my three *Great Business Scorecards*. First, try this quick control scorecard.

4. Are You in Control?

Do you suffer from any of these business issues? If so you're out of control!

Issues	You
Not enough sales. Long sales lead times. Sporadic sales.	
Competition taking your market.	
Late Payments or Non Payment of Sales Invoices - Large Debtors.	
Rising work in progress that is not billed on time.	
Increased borrowing to keep going - Bank keeps calling you.	
Cash flow problems. No money to expand - just prohibitive level of investment required.	
Customer or Supplier contract disputes.	
If you want it done properly, do it yourself - Staff keeps making mistakes.	
Fire-fighting all the time. Just reacting all the time to demands. Lots of reworking going on and/or mistakes being covered up.	

Lack of resources. Frustrated because you cannot do the things you want to.	
Stock Control issues - too much - too little.	
Staff unhappy, morale low - object to any change.	
High Staff Turnover. Can't get and keep the right staff.	
Limited customer base. All 'eggs in one basket'.	
Very High growth.	
Diminishing Market.	
No idea how best to improve your business.	
Is your business environment subject to - collapse of markets, wars, currency runs, new technology, or disease outbreaks?	
You're doing extremely well. You feel relaxed and confident. You assume it will never happen to me.	

5. How Do You Do it? - Go Belly Button to Belly Button!

Observe three key things: STOP, TALK & ACT. You must step off the treadmill periodically to draw breath and reflect.

STOP working in your business for a few hours and
 TALK (Go Belly Button to Belly Button) with your
 customers, employees, other business owners, and
 business advisors about how you could make it easier and
 more fun for all concerned, then
 ACT - take action in Small Steps

The hardest thing is to STOP because you are fearful you will lose momentum and business. Try it for a few hours... try hassle busting. Talk to your staff about any hassles they have that impact on your customers. It is important to focus on your customers here. Then take the most important hassle and fix it in Small Steps. Also STOP yourself - take a short vacation for a few days, stand back, think, and reflect. Get things in perspective. Difficult, I know, but it might be the first step to making your life a better one. Take the risk of stopping for a few days! Work ON making the infrastructure of your business stronger rather than working IN your business actually doing it!

6. How to Use this Handbook

Get an overview of the eight principles

If you want to get an OVERVIEW of my eight simple principles to build a *great* business, read chapters 2, 3, 4 and 6. The first step is usually to gain control (principle 7).

The eight principles are:

1. maximise outside influence and external contacts
2. learn fast from your mistakes and successes
3. fulfil your and your staff's needs
4. build on your best and discard your least good
5. take small cumulative steps
6. build everything in simple interchangeable building blocks
7. gain control – create an operating manual, work templates and checklists
8. be prepared for a crisis

These principles are described in more detail in chapter 6 alongside how these principles link to the four step '4S' improvement cycle: SENSE, SELECT, SMALL STEPS, and STABILISE.

Work with the stages in your business

1. Part one: Starting your business (2-4)

- SENSE - what business areas to consider
- SELECT - how to select your business area
- SMALL STEPS - how to start up your chosen business
- STABLISE - how to keep control of your business

2. Part two: Transforming your business (5-6).

- SENSE - what issues you have with your business now
- SELECT - what issues you really need to sort out to make the business better
- SMALL STEPS - how to implement the transformation
- STABLISE - how to keep control of the transformation and the existing business

3. Part three: Expanding your business (7-12): If you want to GROW or EXPAND or ADAPT apply principles 1 to 6 (chapters 5 to 12) ensuring principle 7 is applied. Remember: don't start to grow or expand until you have very good control

4. Part four: Gaining and maintaining control (13-14): If you feel you NEED MORE CONTROL, you need to study and implement principles 7 and 8 (chapters 13 and 14). To achieve control effectively, you may have to apply principles 1 to 6 (chapters 7 to 12) to create the necessary and appropriate change first to gain control.

Part one: Start Your Business

2. Today's Small Business Issues

In brief

Many people want to be their own boss, gain financial independence, gain creative freedom, and determine their own fate by setting up their own business.

Their success rate is very poor: 50% of business fail by year 3. Why? They...

- failed to keep tight control of their business
- failed to choose a viable market or failed to adapt to changing market conditions
- suffered some unexpected crises

Even when businesses survive, many are not highly successful. Why? They...

- lacked focus and discipline
- were complacent: 'it will never happen to me'
- lacked management capability and competence

Many companies thrive and survive for centuries. Why? They...

- grow more slowly
- compete in stable markets and depend less on fashion and boom cycles
- are family owned or closely held and controlled
- have a narrow product focus to meet their customer needs
- are very competent - have the right business genes

Today we live in a small enterprise culture. Governments encourage business start-ups. More people work for small and micro- businesses than for large corporations. Small business now exceeds the export potential of large multinationals. Economies depend on small business. Many people want to be their own boss, gain financial independence, gain creative freedom, and determine their own fate.

When you examine the fate of many of these small enterprises, an unhappy picture emerges. The following comments come from small business owners and managers in a cross section of industries, and reveal some of the issues they are facing today...

'The trend in our industry is bankruptcy'
'No time to look at strategic issues'
'Lack of focus or direction'
'Fire-fighting all the time'
'A culture change is needed to make progress'
'Our business does not have the ability to change quick enough'
'We have an economic blight - caused by world-wide competition'
'I need an ability to seek out niche markets'
'Consolidation - power in the hands of a few people - such as supermarkets who are squeezing us out of business'
'Managing change and overcoming staff objection'
'It's an endless struggle - to get more out of less'
'Retaining and recruiting good staff is a nightmare'

Some businesses don't even survive for long enough to discover some of these issues.

1. How Long Can a Business Survive?

Three years or three hundred years?

Small business failure rates are stunning!

50% of business are extinct by year 3
70% of businesses are extinct by year 5
90% of businesses are extinct by year 10

Arie de Geus in his top class book *The Living Company* about Shell's study into growth, learning and longevity in business, writes about a 700 year old Swedish company Stora. They started as a copper mine and are now in paper, pulp and chemical manufacture. Over the centuries they moved through forestry, iron smelting, and hydropower. Stora changed its business but kept its corporate life and identity going. Other examples of long-lived companies were Dupont and the Hudson Bay Company. In Europe, many companies are over 200 years old. In London there is a club for companies over 300 years old. Many are small family-owned firms.

Arie de Guis argues in his book that long-lived businesses have four key features:

- sensitivity to the changing environment
- a strong sense of identity
- tolerance – allowing diversity and avoiding central control
- conservative financing – careful with their money

Achieve a remarkable record of survival

In his great book *Hidden Champions*, Hermann Simon describes some of the best companies in the world that trade in invisible products or low profile products.

Hidden Champions have a remarkable record of survival
with an mean age of 67 years (median = 47 years).

They are small or medium sized and dominate their markets worldwide with market shares of more than 50%. In contrast companies such as Microsoft, Intel, Fedex, or Nintendo, they...

- grow more slowly
- compete in stable markets and depend less on fashion and boom cycles
- are family owned or closely held

They also have the following characteristics:

- a narrow product focus to meet their customer needs around the world – very close to their customers
- a large part of their business comes from exports – truly global competitors
- continuity, with almost no turnover and average CEO tenure of 24 years
- great innovators
- unmatched internal competencies

Build your company to last

In *Built to Last*, James Collins and Jerry Porras examined large exceptional companies which performed nearly six times better than the selected comparison companies in their respective markets over a period of 30 years). These visionary companies, as they called them, were all born before 1950 with the earliest started in 1812. Some of the key characteristics of how they have survived and thrived are...

- Good is never good enough. They never believe they are good enough – constantly improving. Never complacent!
- They concentrate on taking an architectural approach to building the organisation. They set down a 'constitution', a set of rules or policies for running the type of company they want.
- They have a clear sense of purpose and a core set of values that are not compromised for financial gain or short term expediency.
- They aren't motivated purely by profit or financial gain.
- All team members believe in the core set of values and have a sense of responsibility that comes with belonging to an élite or special organisation.
- They set bold goals for themselves long into the future and use Big Hairy Audacious Goals (BHAGS) to stimulate progress.
- They try lots of 'stuff' and keep what works. Innovation is encouraged.

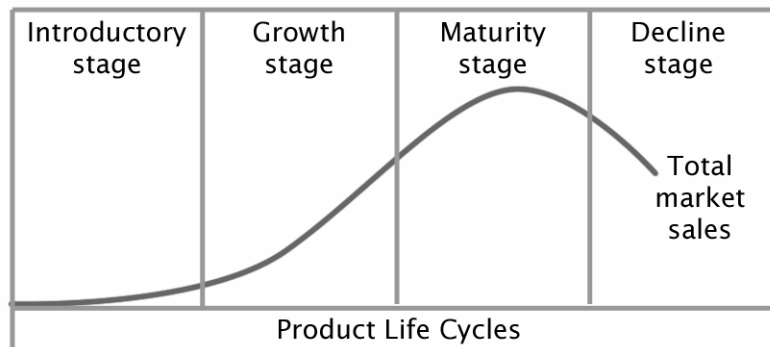
Survival is a key priority

As in nature, business is in a constant state of flux.

Stand still and you are heading for extinction.

Products and services you have will inevitably go into decline, so you need to replace them or you will become extinct. Whether you desire to be a highly successful millionaire, or just want to enjoy yourself and money is not an issue to you, you need to change to survive. The big risk lies with the owner who is happy with the status quo. Complacency is a great danger!

Remember, all products go through a sales cycle with time:



The length of the cycle depends on the products: some cycles will be very long and others can be exceptionally brief. You must know where your products are on this chart and be ready with a replacement to avoid extinction. Extinction means that the years of hard work by you and your colleagues would have been wasted. The heartache of paying off the staff who have been loyal and worked hard to support you must be terrible.

Richard Branson, entrepreneur extraordinaire, says in his book *Losing My Virginity...*

Survival is the key priority. No matter how many successes, I have always invested in new products.

The Virgin group, led by Richard Branson, includes bridal services, financial services, book publishing, music stores, electricity and gas, British rail, and even a new music company - V2. Today, there are nearly 170 companies under the diverse Virgin umbrella with nearly 50,000 employees. Diversity, as in Virgin's case, is one way to assure survival.

2. Know the Pitfalls

What causes business failures?

According to the UK Society of Practitioners of Insolvency (www.r3.org.uk)...

Nearly two thirds of financial failures could be prevented by greater management acumen.

The Ostrich's Guide to Business Survival Avoiding Financial Failure says

Besides financial failure, many businesses close down because the profit expectations of a business don't meet up with the owner's expectations. It just becomes too much hard work for the rewards. The owner quietly closes down the business or sells it.

The UK Insolvency Helpline (insolvencyhelpline.co.uk) provides a list of reasons for business financial failure based on the last 65 cases they have dealt with. I have categorised these reasons into four broad categories, with some examples.

Category and typical reasons	% of Cases
Cash and money issues Allowing customers too long to pay Carrying too much stock Failure to pay taxes Personal extravagance Lack of working capital	44%
Management issues Not ambitious – standing still Growing too fast Poor quality products/service Bad staff relations Contract disputes	30%
Marketing issues Failure to gain new markets No market focus Reliance on one or two customers Poor market research	19%
Crisis Fraud, fire, flood Falling property values Staff setting up as rivals Legal disputes	7%

You could argue that all failures are down to poor management. Sadly, many businesses fail because the owners seem to believe it can never happen to them. I recategorised these reasons into three generic management capabilities.

Capability category	% of Reasons
Control the detail	75%
Adapt constantly	20%
Handle a crisis	5%

To succeed in business you need to master all three factors simultaneously:

CONTROL THE DETAIL of everything you do
ADAPT CONSTANTLY to your environment or market
HANDLE A CRISIS - sudden, large and unexpected events

The major issue is control (75%), followed by adaptability (20%) and then being able to cope with a crisis, while retaining control (5%).

Why is business performance so poor?

Even if you can survive, business performance is largely poor. Why is this? In the bestseller *The Millionaire Next Door*, Thomas J Stanley and William D. Danko state that most people have no business ever working for themselves:

The average net income for the more than fifteen million sole proprietorships in America is only \$6400 (£4000)!
About 25% of sole proprietorships do not make one cent of profit during a typical year. It's even worse for partnerships.
What about corporations? Only 55% have any taxable income during a typical 12-month period.

No doubt the above statistics apply similarly to other countries. A huge productivity gap exists between the best businesses and the average business: the UK Best Factory Awards Database (Management Today & School of Management 1995) states that...

The top 10% of businesses are twice as productive as the average.

There are probably several reasons for this poor performance:

- **Lack of focus and discipline:** trying too many things at one time without clear goals. Lou Gerstner, who engineered IBM's historic turnaround, stated that 'lack of focus is the most common cause of corporate mediocrity.'
- **Choice:** many people run businesses but really only want to do the job... to make pies, cut hair, paint houses... They make just enough money for themselves to survive.
- **Complacency:** often, business owners do not make the effort to become more productive and profitable. They see or fear no market or competitive threat and so no need to change and improve!
- **Lack of management capability and acumen**

Rapid growth is dangerous

Many business folks have a passion for growth: make the biggest pile of money as fast as you can... and retire. Growth brings excitement and a sense of achievement. You want to do well for yourself, your family, and for the others that have joined your company. Each person has his or her own goals and there's nothing wrong with that.

However, rapid growth can cause control problems and extinction. Cash flow goes out of control. Your staff don't know their jobs well enough, so product returns and rework creep up. It becomes a madhouse! It is like nature, where cells that grow in an uncontrollably fast, cancerous way usually mean that the living thing dies. How many companies achieve outstanding growth but cannot return a decent profit? They can't control their expenditure to achieve the desired growth.

Perhaps we should not be too concerned about slow growth: it is sometimes a blessing if you have a poor start or work in a slow-growing market.

3. Do You Need a Great Idea to Start a Business?

No! In *Built to Last*, where James Collins and Jerry Porras examined exceptional companies, many owners had no great idea to start and really struggled to survive in the early years. Some were outright failures! It was the classic case of the hare and the tortoise, as many of these companies have now been existence for over 50 years. One of the most crucial decisions to starting a business is your choice of market area or segment. Many companies fail early on because there is insufficient demand for their proposed products and services.

