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**Insight Solutions Success**



# Five Keys to Building a Strong Business

One thing all business owners have in common is their desire to build a strong business. A strong business is one that can withstand the ups and downs of an economic cycle; it can replenish itself through profits; it's agile, flexible and communicates well' and it can support the owner's lifestyle. A strong business is based on a true business opportunity and a sound business model. While a business opportunity is shaped by the market environment; a business model is shaped by the owner

There are at least five keys to building a strong business: the owner's ability to lead and manage; a focus on customer needs and wants; systematized processes and procedures; hiring and investing in the right people; and managing cash.

## **Lead and Manage**

Whether the business consists of one person or many, a clear vision and mission is imperative. These drive goals and objectives that are timely, measurable, and accountable. Amid many distractions, it keeps the owner focused. If the owner can effectively engage employees to embrace the vision and achieve company goals, the probability of success is high. In fact, the most important things an owner can do is stay focused on what the company does well and help employees do their best work. These concepts are driven home in books like "Good to Great" by Jim Collins and "The E-Myth" by Michael Gerber.

## **Maintain a Customer-Driven Focus**

A customer-driven business is one that is synchronized with what customers really want and need. Most important is what customers value. These can be many things: a fair price, convenience, fast turnaround, quality, etc. The reward for meeting their needs is predictable sales and growth. However, "customers" include more than the buying public. They include shareholders, suppliers, bankers, employees, and others who rely on an owner's ability to keep his or her promises. A strong business balances the needs of all these "customers."

## **Use Systematic Processes and Procedures**

Customers don't really care how it's done, they just want their needs met. However, to meet the needs of everyone—especially shareholders—production and delivery of goods and services must be efficient. The process of creating value to customers is based on a total management system originally used by Toyota and described in "The Machine that Changed the World" by J. Womack, D. Jones, and D. Roos.

Use of a total management system eliminates waste, improves productivity, assures quality, and meets or exceeds the customer's expectations. Better use of resources results in higher profitability and higher profits feed growth. An excellent example of applying total management systems to small business is described in "Better Thinking, Better Results: Using the Power of Lean as a Total Business Solution" by Bob Emiliani.

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## *Five Keys to Building a Strong Business Continued ...*

### **Hire Right**

An owner soon realizes that building a strong business is tough to do alone. At a minimum, an external team including a banker, insurance agent, certified public accountant, and attorney is required. At some point, though, employees will be needed to manage day-to-day functions as the business grows. An owner needs to assemble and lead people to apply principles and practices systematically and coherently. The key to assembling the right people is hiring right. This means selecting people for their talents and building on their strengths. The next steps include investing in their talents, listening to their thoughts, assisting them in their jobs, and rewarding them for work well done. In the book, "First, Break All the Rules", authors Marcus Buckingham and Curt Coffman share the results of in-depth interviews revealing how the world's greatest managers use these techniques.

### **Manage Cash**

Every strong business depends on a predictable, consistent cash flow. A profit plan measures true profitability and is the best measure of efficiency. However, a cash budget that predicts and monitors cash flowing into and out of a business is a good measure of sustainability. If an owner can predict and budget cash flow, then he or she can make better decisions on how and when to use cash. When businesses extend credit to buyers, incoming cash lags behind sales. When sales are made, assets (like inventory or labor) are required to

complete the transaction and these assets require cash. Therefore, a lot of cash is going out and not a lot of cash is coming in throughout seasonal or cyclical fluctuations. Since the business owner can't pay bills with negative cash, he or she has to either borrow cash or inject it. Managing cash with a budget helps the owner predict cash shortages so funds can be arranged (often with a bank loan) to fill the gaps. When collections create excess cash, the short term loans can be paid back. Even profitable businesses can go bankrupt if they haven't balanced the cash flow cycle.

While many factors contribute to building a strong business, these five deserve special attention. Strong businesses support their local communities and are the foundation upon which the economy grows.

*This was written by Janet Harte, a Washington Small Business Development Center (WSBDC) Certified Business Advisor. The WSBDC is a network of 25 centers in Washington managed by Washington State University. Advisors provide in-depth, confidential, and no-cost customized advising to businesses within Washington State. To locate your local SBDC advisor please visit the SBDC website <http://wsbdc.org/contact-an-advisor/>*