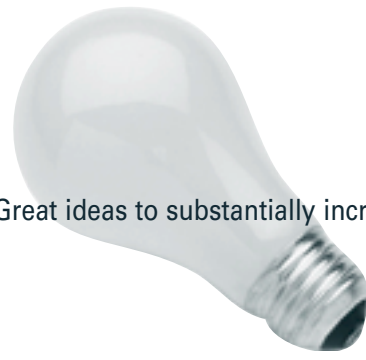


Profit Enhancement *Report*

Great ideas to substantially increase profits.



April/May 2003



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Banking 101

How To Better Your Odds of Obtaining a Business Loan

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o you need a business loan. With a basic understanding of the lending process, you can increase your chances of getting one. Indeed, in many cases, a bank may reject a loan request simply because the business didn't show the loan officer its complete financial picture. Let's review two key aspects of the lending process.

5 C's of Credit

To better understand the loan-application process, look at it from your lender's viewpoint. When evaluating loan requests, your lender asks questions based on the five C's of credit:

1. **Capacity.** What's the company's ability to meet the loan's financial obligations?
2. **Collateral.** What assets can the company pledge to support the primary repayment source?
3. **Capital.** How much equity does the business possess? How much personal money has the business owner devoted to the project?
4. **Character.** How trustworthy are the participants?
5. **Conditions.** What is the economic outlook for the line of business?

2 Sources of Repayment

Traditionally, loan officers look for at least two sources of repayment from a customer:

First source. For short-term loans, the source involves operational cash flow. For long-term loans, it involves continued positive earnings as well as operational cash flow.

Second source. This is common collateral, such as a mortgage on fixed assets, accounts receivable or inventory. This source serves as a backup should the first source fail.

In addition, don't be surprised if your loan officer requests a third repayment source. Lenders often request a personal guarantee because it proves the business owner's commitment to the operation's success.

DO'S AND DON'TS WHEN APPLYING FOR A LOAN

Do: Be honest when giving financial information, whether positive or negative.

Don't: Commit to agreements that you're unable to keep.

Do: Present a concise and comprehensive financial plan to repay the loan.

Don't: Ask the loan officer how much money you can borrow.

Do: Negotiate loan terms and rates after presenting a complete request.

Don't: Demand term and rate information over the phone.

Do: Ask questions about anything you don't understand.

Don't: Spend the money before the lender approves your loan request.

Add It All Up

You can readily figure out when your business needs an infusion of cash. Obtaining a loan may not be as simple. But with a basic understanding of the lending process, you can align the numbers in your favor. If you would like assistance in planning to obtain a business loan with favorable rates and terms, please give our profit advisors a call. ■

Is Your Marketing Strategy Contagious?

Use Viral Marketing To Hype New Products and Services

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oes your company's marketing strategy make you sick? Well, we hope not literally, of course, but using "viral" marketing may be just the strategy you need to introduce new products or services.

Viral marketing is the latest buzz phrase for what once was called word-of-mouth or network marketing. Viral marketing begins slowly, with relatively few knowing about your new product or service. Then, as more people discover its advantages, excitement builds and — theoretically — your product or service will eventually be the talk of your industry.

5 Prescriptions

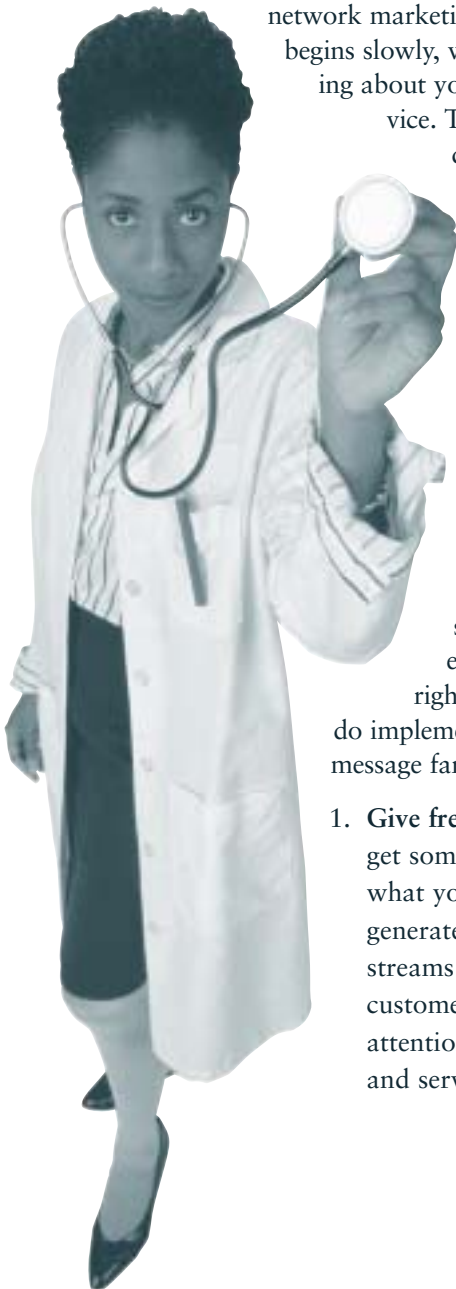
To get your viral marketing program rolling, consider these five strategies. Remember, every strategy may not be right for your company, but do implement several to spread your message farther.

1. **Give freebies.** Everyone likes to get something for nothing, and what you give away today can generate goodwill, attention and streams of revenue from new customers. Plus, freebies attract attention to your other products and services.

2. **Keep your message simple.** A short, easy-to-replicate message will allow others to quickly pass it to friends and business acquaintances.
3. **Build on human nature.** What element of the human psyche can help spread a viral campaign? The need to be knowledgeable and popular. For example, how many interesting newspaper articles or good jokes have you passed to a friend or business partner? If your message is relatable, it stands a better chance that someone will forward it to others.
4. **Build scalability into the campaign.** Once released, a virus grows exponentially as it replicates. So make certain that demand doesn't outstrip supply. Worst-case scenario is you run out of stock and disappoint potential customers.
5. **Reward loyalty.** Create a reward program that offers something to customers who refer new customers. Rewards, such as free or discounted products or services, will encourage others to seek referrals.

Patients Please

Viral marketing generally works for any business, regardless of budget. But remember, a virus must reach critical mass before an epidemic starts. So be patient and give your viral message time to multiply. If you would like help spreading a contagious marketing program of your own, please give our profit advisors a call. ■



Keep Your Stars Happy

Reduce Employee Turnover by Building Strong Relationships

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hat's the No. 1 reason employees choose to stay with their employers? Salary? Benefits? Opportunities for advancement? These are all excellent reasons but the simple answer is that employees are happy with their relationships with their employers.

Building good relationships between staff members and their bosses can pay off handsomely for your company. Why? Because experts estimate that the cost of replacing an employee ranges from 29% to 46% of a worker's salary.

The key to lowering your turnover rate begins with letting employees know that your company values them. While many ways exist to encourage a company culture that appreciates talent, here are some effective suggestions:

- **Publish employee profiles.** Use your company's newsletter or intranet site to run employee profiles. Make certain to include everyone from mailroom employees to boardroom executives. Include photos so everyone can recognize them.
- **Acknowledge individual efforts in e-mails.** When employees from another department contribute significantly to your project, thank them by e-mail and don't forget to cc their supervisors.
- **Write it down.** Urge managers and supervisors to send hand-written thank you notes annually to staff members. The notes should be thoughtful, detailing the employee's contribution to the department or company. A hand-written note makes a bigger impression than an e-mail or typed letter. ■

AGGRESSIVE RX FOR YOUR UNHEALTHY BOTTOM LINE

Here's an unorthodox strategy that may lead to substantially higher profits: Create a more profitable customer base by releasing less-profitable customers. A risky move? Yes, but with detailed planning, you will better serve existing customers by meeting their untapped needs.

To get started, consider these questions:

- What are your customers' long-term economic values?
- Who are your company's most profitable customers?
- Which customers are your loss leaders?
- Which customers offer the greatest future return for your company?

Then find the answers by conducting this marketplace research:

Customer profiling. This identifies your customers' economic values so you can develop a strategy to capture the most profitable markets for your products and services.

Competitive analysis. This process gathers data about how your target market perceives you and your competitors. The data should reveal how you stack up against your rivals.

Once you create a profitable customer base, develop a marketing plan to cross-sell your products or services to those customers. Remember, you must perform for your customers, but you also want customers who perform for you. This is the prescription for a healthier bottom line.

Profit Success Stories

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An **auto parts manufacturer** provided its national sales force with Internet access to the company's customer order database and inventory files. Now, sales reps can check on an order status and inventory availability from their laptops at the customers' sites. This increases sales and improves customer service.

Estimated Profit Potential:
\$100,000

A **wholesale distributor** hired a professional purchasing agent and an inventory control manager to consolidate departmental activities — such as inventory requests, disbursements, tracking and replenishment. The company also implemented systems to augment the new positions.

Estimated Profit Potential:
\$350,000

A **computer processing service bureau's** contract provisions specified separate billing for reprocessed work that was the customer's responsibility. The billing department regularly charged incorrectly for the work. The bureau implemented a better process to track charges for reprocessed work.

Estimated Profit Potential:
\$427,000

A **nonprofit medical association** annually publishes 100-page catalogs for its two national conferences. It buys custom paper its printer cuts to fit each catalog. By switching to a regular stock paper of similar quality, the association saves on paper costs.

Estimated Profit Potential:
\$50,000



A **large bank** that was losing customers implemented a system to monitor transaction amounts and frequency. When some types of customers' banking activity fell below specific levels, bank representatives contacted the customers to identify and correct any issues that may have been limiting activity.

Estimated Profit Potential:
\$750,000

A **publishing house** standardized its computer hardware and software systems for all staff members. This eased moving data between departments, raised overall productivity and enhanced customer service.

Estimated Profit Potential:
\$200,000

A **construction company** experienced problems sending crews to job sites with the proper materials and equipment in appropriate working condition. When delays occurred because of time mismanagement, the company's labor costs soared. Now, before crews leave, they must load trucks according to written specification sheets and perform equipment-safety checks.

Estimated Profit Potential:
\$250,000

20 SIGNS YOUR BUSINESS IS HEADING INTO THE RED

Because of today's uncertain business environment, you're understandably paying close attention to external business factors such as the stock market and which company will be next to file for Chapter 11 protection. But don't lose sight of your company's internal factors. Before you realize it, you may be swimming in red ink. These questions are designed to help assess your company's financial state. If you have even one "yes" answer, please give us a call. We can help you devise a profit plan that can stop the bleeding.

	Yes	No
1. Is cash flow decreasing?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are overhead expenses increasing?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is inventory stagnant?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are gross margins sinking?	<input type="checkbox"/>	<input type="checkbox"/>
5. Is debt growing out of proportion to profits?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are credit limits maxed out?	<input type="checkbox"/>	<input type="checkbox"/>
7. Is employee turnover rising?	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you delayed implementing plans to meet financial goals?	<input type="checkbox"/>	<input type="checkbox"/>
9. Is market share declining?	<input type="checkbox"/>	<input type="checkbox"/>
10. Are vendors calling you to collect what you owe them?	<input type="checkbox"/>	<input type="checkbox"/>
11. Are interest expenses increasing as a sales percentage?	<input type="checkbox"/>	<input type="checkbox"/>
12. Were errors discovered in previous financial reports?	<input type="checkbox"/>	<input type="checkbox"/>
13. Is your profit plan out of date?	<input type="checkbox"/>	<input type="checkbox"/>
14. Is sales volume falling?	<input type="checkbox"/>	<input type="checkbox"/>
15. Are employees disgruntled?	<input type="checkbox"/>	<input type="checkbox"/>
16. Do company checks regularly bounce?	<input type="checkbox"/>	<input type="checkbox"/>
17. Are sales on an upswing but profits stagnant?	<input type="checkbox"/>	<input type="checkbox"/>
18. Do you constantly write off some customers' unpaid bills?	<input type="checkbox"/>	<input type="checkbox"/>
19. Is customer feedback negative?	<input type="checkbox"/>	<input type="checkbox"/>
20. Are this year's sales and marketing action plans still unapproved?	<input type="checkbox"/>	<input type="checkbox"/>

See other side for more ways to enhance your profits ...