Guide: Key traits of a successful business

What's the secret to success in business? Here are 16 things to start you thinking.

1. Effective leadership

Leadership characteristics

The leadership characteristics required to navigate a business in good times and bad are considerable and should never be underestimated. Many of us are simply not cut out for the demands of owning and leading a small or medium sized business. Probably just as well, as we need the vast majority of the working population to naturally take their place as employees.

It is often said by management gurus that whilst managers 'do things right', it is the leader that 'does the right thing'. As such, leaders must be prepared to make difficult and sometimes unpopular decisions.

Attributes of effective leaders

The most effective leaders possess the following attributes in business:

- An ability to conceptualise the whole of a business
- An ability to problem solve
- A decisive nature, after careful research and enquiry, as opposed to acting impulsively
- A tendency to make judgements that regularly turn out well for the stakeholders in a business
- High levels of self confidence and determination
- High levels of drive and energy, sustainable over long hours when needs must
- A recognition of their own strengths and weaknesses, therefore surrounding themselves with the right team that 'fills the void'
- A willingness to make difficult decisions and persevere during tough times
- Strong interpersonal skills. Leaders don't just interact with customers. They deal with staff, professional advisors, financiers, salespeople and business alliances
- A willingness to know when they are out of their comfort zone and seek advice from a range of sources

2. Outstanding customer service

Love your customers

You have to love customers to lead and manage a successful business. And yet so many owners of small businesses don't. Take for example the 'Fawlty Towers' style restaurant we have all experienced in our own town or community. The owner doesn't understand the needs of his or her customers, sees them as nuisances and interruptions to a busy day, and falls far short of delighting customers.

Excellent customer relations

Well run businesses have excellent customer relations. To summarise, they:

- Understand the needs and wants of their customers very well. They invite feedback (both good and not so good) from their customers, seek their advice on customer advisory boards and focus groups and are constantly staying 'tuned' to their changing product and service demands
- Show genuine empathy towards their customers. This is often best demonstrated when a customer calls to complain about an aspect of service or delivery. The right attitude of genuine concern and an ability to listen and get to the very heart of the problem can convert an initially irate

customer into your strongest advocate

• Don't just provide products and services, but see themselves as supplying solutions to customers' needs and problems

• Treat each interaction with a customer as an opportunity to develop a stronger service relationship. Their business is relationship-based rather than transactional

• Develop highly defined customer communication systems, taking the accuracy of their customer relationship management database very seriously

• Go the extra mile for customers. Their products and services are not necessarily priced to compete with 'big business'. In stark contrast, they realise that people will often pay just a little more to have their expectations met or even exceeded

• Have a good understanding of the demographic profile of their customers. This helps to define the profile of future customers and is incredibly valuable for marketing purposes. Consider:

  • Age

  • Sex

  • Occupational tendencies

  • Income

  • Location

  • Likely interests

  • Buying preferences

• Engage with customers: on the phone, on the shop floor, even at the customer's business premises, where appropriate

In a world of 'Consumer sameness', provide the personal touch that differentiates.

3. Strong product and industry knowledge

Ignorance drives customers away

Great businesses know everything they can possibly know about their product. This is one of the most obvious but least applied characteristics of a successful business. We have all experienced the restaurant where the waiter doesn't know the key ingredients in a menu item, or the sales assistant in a book shop who has no knowledge of a well known author's latest release. If ignorance of one's own product drives customers away, imagine how those same customers gravitate to the business where the entire team is passionate and knowledgeable about the entire product or service range.

Having great product knowledge includes:

• Ensuring customer facing staff are fully trained on products and services. This includes staff who take phone calls and enquiries from customers or handle web based orders and requests

• Updating staff regularly as products change and new ones are developed and released

• Ensuring that staff standards are sustained during weekends, public holidays, and when key staff are on holiday or on training courses, so that on any particular day customers still experience staff with great product knowledge

4. Strong management capability

Do things right

Just as leaders do the 'right things', it is the responsibility of management to 'do things right'. A business without effective management will experience the following symptoms:

• Quality control problems

- Inconsistent customer experience
- A significantly lower standard of customer service
- Poorly managed staff
- Poor cost and wastage control
- An inability to get new products and services to market on time and at the right price
- Financial performance that is well below that of industry peers

Good managers have the following attributes:

- They are highly organised
- They finish a task once started
- They are detail oriented
- They are decisive
- They demonstrate a consistent and stable approach to staff management

5. Effective staff performance management

Important characteristics of a great staff manager

Effective staff management involves managing right across the range of poor, indifferent and great staff performance.

Important characteristics of a great staff manager include:

- Appreciation of a job well done
- Being intuitive when it comes to morale, stress and the needs of key team members
- Providing a great working environment
- Being consistently loyal to the team
- Being aware of salary benchmarks in the industry
- Understanding the factors that motivate individual staff members, whether they be financial or otherwise
- Rewarding great performance
- Establishing clear expectations to staff, by way of well structured induction programmes, defined job descriptions, a job title that conveys the right status and defined and well communicated performance standards
- Providing job security through effective communication
- Providing a platform for growth and improvement through training and professional development
- Implementing feedback systems that make it clear when staff are and aren't performing
- Implementing formal staff reviews, conducted at least six monthly
- Dispensing discipline tactfully — praise in public and admonish in private
- Demonstrating a clear communication style
- Providing an appropriate level of 'open door' time, so that air time is given to concerns, problems and ideas
- Being decisive as a manager, rather than being perceived as dithering or procrastinating

6. Tight working capital management

Effective working capital management encompasses the tight management of cash, stock, work in progress, debtors, and costs in general. Let’s look at each of these components of working capital.

Cash management

Strict policies and procedures around cash banking, and the recording of sales must be implemented. The staff need to know that the business has strong cash controls in place to detect misappropriation. The team are likely to observe and copy owner and manager habits. For this very reason, staff should never witness an owner taking cash from a cash register, or even paying wages ‘under the table’.

Stock management

Many retail businesses now have excellent point of sale systems that enable them to identify the stock turn rate for each product line. This in turn enables managers to identify problem stock lines, reorder levels and most importantly, the stock that is generating the greatest contribution to gross profit (the difference between the selling price and the cost of product sold).

Stock represents future cash. Without strong stock management considerable sums of money can be tied up at the expense of business liquidity.

Effective stock management is also about reducing the wastage and shrinkage that results from staff and customer theft, product obsolescence and damage, poor ordering and invoice checking systems and ineffective product display and placement protocols.

Importantly, a physical stock take should be periodically undertaken. No business should rely solely on its point of sale system to tell them how much stock they must have on hand. A physical stock take can help to identify the value of shrinkage and wastage to a business.

Businesses should periodically review or audit their gross profit controls. We can provide you with a ‘Gross Profit Checklist’ that helps you to identify weaknesses in stock and cash management that could be robbing your business of significant margin (profit).

Work in progress management

Trades, service providers and professional service firms all carry work in progress (WIP). WIP is also future cash. If you don’t have strong cost recording systems backed up by strong billing systems, the dollar value of the WIP you are carrying can blow out, drying up cash flow.

To keep WIP to an acceptable level, ensure the following systems are in place:

- Implement a WIP recording system (preferably computer based) that captures all costs including materials, subcontractors, staff time and other chargeable expenses
- Analyse WIP balances and the progressive costs within each job WIP balance on a regular basis
- Bill promptly. Consider progress or interim billing to keep WIP balances down and maximise cash flow
- Regularly monitor jobs where costs have been incurred yet no revenue has been earned
- Calculate the profit on each job monthly, or earlier if the job is complete. Compare this to budget expectations and follow up job cost blowouts with appropriate staff members

Debtor management

Debtor management is all about systems. Systems are safety nets. The fundamentals of good debtor management include:

- Credit checking of new customers
- Clear terms of trade signed by customers
- Enforceable personal guarantees that ensure a business can recover outstanding money from a company shareholder or trustee of a family trust
- Providing multiple payment options including credit card and even debtor finance
- Invoices that capture the right amount of detail and therefore pre-empt customer queries

- Prompt billing
- Preparation and analysis of an aged debtors report, on at least a monthly basis
- Immediate contact with customers who step outside of your terms of trade
- A dripping tap philosophy when it comes to bad payers
- Stopping credit to bad payers
- Engaging a debt control agency to enforce recovery

Cost control

The fundamentals of cost control include:

- Setting a detailed budget of costs prior to the start of a new financial year
- Regular monitoring (at least monthly) of actual costs compared to budget
- Communicating cost blowouts to appropriate staff members
- Conducting a regular 'Cost reduction review', focusing on:
    - Purchasing procedures
    - Staff resources (trim the fat, not the muscle)
    - Scale and prompt payment discounts
    - Telecommunications costs
    - Technology management costs
    - Printing and stationery costs
    - Bank fees
    - Finance costs

7. Understanding the key drivers and therefore the key performance indicators in your business

Effective KPIs

A key performance indicator (KPI) is a measure designed to track critical success factors in a business. KPIs provide a statistical measure of how well an organisation is doing. To be effective, KPIs should be few in number and focus on vital areas in the business.

KPIs differ by industry, business and even departments within a business.

For example, a retail business may have as one of its KPIs the average customer spend whereas a Customer Service Department may have as one of its KPIs the percentage of customer calls answered in the first minute.

Whichever KPIs are selected, they must reflect the business goals, they must be key to its success, and they must be quantifiable (measurable).

We can provide you with a sample KPI list that suits your business or industry as your start point for implementing a KPI monitoring system.

8. Marketing ability

Create a plan

Many businesses remain a secret in the marketplace. That is, potential customers have little idea that they exist, or if they do, the full range of products and services available. Marketing should not just be aimed at the new customer, but also at organic growth achievable from existing customers who may not be exposed to all that a business can provide for them.

The following list identifies just some of the activities that a strong marketing focus should cover:

- Creation of a marketing plan. A marketing plan should be concise, and its resulting action plan should be based on clearly defined activities that combine to create marketing gravity. This does not need to be a 30-page document crammed with grandiose ideas. Rather it is a simple table of actions, clearly identifying the action, who is responsible for managing the action, and an achievable target date. Activities and issues canvassed are likely to include:
  - Evaluation of your unique selling proposition (USP)
  - Analysis of customer needs
  - Pricing strategies
  - Analysis of the current web presence including opportunities for online sales
  - Review of the success or not of current media advertising campaigns and other promotions
  - In-store displays, merchandising, demonstrations, and special events
  - Strategies for increasing customer spend such as companion selling and up-selling
  - Strategies for increasing customer transaction frequency

9. Understanding the difference between marketing and selling

Sales proposals need to be followed up

Marketing and selling are not the same thing. Marketing involves making an offer to an existing or potential customer, whereas selling involves following up the offer and closing the sale. Many small businesses are not effective at following up sales proposals, to their financial detriment.

Businesses need:

- Processes that increase sales follow up activities
- KPIs that monitor sales follow up and close rates
- To recognise that some staff will need more sales training than others

10. Sufficient set up and working capital

Be prepared

Businesses need enough capital to set up a business and enough working capital to fund normal growth as well as future expansion. Many business owners are shocked to discover that as their business grows, so does their investment in stock, work in progress and debtors, culminating in tight cash flow.

The business world is littered with clever entrepreneurs who can’t start or sustain their business due to lack of start-up or expansion capital.

11. Strong quality control

Document quality control procedures

Quality control is one of the cornerstones of growth and consistent customer experience. Periodically a business should undertake a quality review, assessing the internal and external costs of mistakes, rework, and defective product manufactured.

The reasons for poor quality are often a lack of quality assurance procedures. Such procedures should be documented in an internal Quality Manual.

12. Excellent business systems (systemisation)

Consistency is key

Systemisation is the implementation of procedures and simple documentation outlining all tasks that need to be carried out in a business.

Systemisation reduces your overhead when it comes to training new staff, keeping existing staff performance and efficiencies up, and handling crisis situations when a key staff member leaves or gets sick.

One of the most important benefits of systemisation is consistency. Your customers may love you and you may treat them the same all the time, but if you want to grow, or go on holiday, someone else needs to be able to deliver the same consistent results. This can only be done through systems.

Many businesses have a systems manual, some more prescriptive than others, and these may be a bound paper document or kept in electronic form.

13. Good knowledge of the competition

Know thine enemy!

It is far better to overreact to potential competition than underrate the competitors to your business or industry.

Every business should conduct an annual review of its competitors, assessing what they do well, what they don't do well and comparing their pricing, customer service and marketing strategies. If you aren't familiar with your competitors' strategies, then it's time you acquired this knowledge.

14. Willingness to network

Understand the value of networking

Successful businesses understand the value of networking. Aspects of your business network should include:

- Suppliers
- Businesses from the same industry, particularly in non-competing locations
- Professional networking organisations such as BNI and Chamber of Commerce
- Business associates
- Your business advisory network, including bankers, accountants and other business advisors and financiers

15. Work on the business

As opposed to working in it

Business owners and managers who spend healthy amounts of time working on the business as opposed to working in it, reap the rewards of their research, analysis, and resultant planning.

Successful businesses conduct planning days at least on an annual basis. These days are an opportunity to force physical separation from the day-to-day operational aspects of the business, focusing on strategy, growth, and improvement. Such days should have an advance agenda and involve key business advisors where appropriate.

Following on from a structured planning day, it can be incredibly valuable to remove yourself physically from the business on a weekly basis for short periods of time to ensure implementation of actions raised during the planning process.

16. Appoint proactive business advisors and involve them in business development

View your accountant as a virtual CFO

Successful businesses recognise the need for strong and transparent relationships with bankers and financiers. It can be beneficial to forward regular management reports to these important business alliances.

The accountant is perhaps the most under-utilised of professionals. Successful businesses draw on the key strengths of their accounting firm, viewing them as a virtual and part time Chief Financial Officer, a role that every small business would dearly love to employ but cannot afford in the traditional sense.

Your accountant's business and financial reporting skills can be used in the following ways:

- To facilitate monthly or quarterly financial and business focus meetings, critically reviewing the performance of the business and its cash flow and profitability
- To benchmark the business' performance with that of peers within the same industry
- To help establish KPIs for the business and implement systems for their monitoring
- To facilitate your monthly Directors' meetings

In summary

Ensure success

Business success is rarely accidental. Conversely business failure can often, with the benefit of hindsight, be entirely predictable.

The above summary of the key characteristics of a successful business summarises succinctly the attributes, skills and behaviours required to ensure business success.

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