What is a Healthy Company?

Webinar Q&A: Tom Stimson Responds to Your Questions

Q: Is growth a requisite for a company to be considered healthy? In other words, are there healthy companies out there that do not grow (or grow very little)?

A: There are happy, profitable companies that aren't growing – but unfortunately that does not fit the definition of healthy. Growth is what makes profit sustainable. Without it, profits will dwindle because the weight of the company's overhead will grow at the same time while the marketplace chisels away at margins. Growth will not fix net profit, but the added volume will help make up for it. The measuring stick is accumulated profit. Healthy companies add more accumulated profit over time and in balance sheet terms, these can show up as increased equity. In other words, the company will be worth more.

I understand that this does not meet everyone's definition of happiness or success. That is why it is so important to understand your personal goals for your business and run the best company you can that meets that criteria. In working with my consulting clients, these are the things we have to address.

Q: There may be no simple answer for this but...I have problems having confidence that we'll have sales growth so I don't buy things that we need and don't spend money that would help things be better or more efficient. The result is that next quarter we don't have efficiency that we could have had but we don't know whether or not we'll have the sales to support the investment in efficiency improvement purchase.

A: The confidence you seek is in budgets and forecasts. Sorry, the boring details of business administration are important. There is no substitute for having confidence in your revenue stream (good or bad) and the corresponding gross profit contribution of that revenue. Wait…there is one alternative: dumb luck. In small business many of us are just lucky. Sure, we "make our own luck," but try to get a loan on that business plan.

This circles back to one of my biggest mantras, "Do the math." Efficiency by definition is quantifiable. You have to spend money to make money, or so it is said. However, first calculate the return on the spend – and as I said in the webinar – *trust your forecast*.

Q: Should all our business be parachute business? Should we be turning down more product sales?

A: Keep a good mix of competitive, distinct, and breakthrough offerings. The ideas and products of the first two are what creates credibility for the third. Raise prices as demand increases. If you find that your pipeline is full of high-value breakthrough business, you need keep the marketing ratcheted up to sustain that demand. However, when your pipeline is full with productized business and that leaves you little room for the solutions customer, then you need to raise prices of products to maximize the return and create capacity for parachute opportunities.

Q: We do a lot of last minute, complex work that you say should be high margin. But our customers are still buying on price. How do we get these high margins then?

A: A couple of things to consider: Perhaps this work you speak of is not as last minute or complex *as it once was*. Timelines today are greatly compressed and complexity is also relative. Your competition may be making this kind of work look easy and seem unfettered by the timing, which will drive the perceived value down. The second thing to consider is that customers sometimes fib and salespeople are sometimes weak. It's the customer's job to push spending down. And Salespeople need to believe in your value.

Either…

Work on reducing salesman fear, stand your ground more, and let a few price shoppers move on down the road.

Or…

Redefine last minute and reset your margin expectations, which means you need a more valuable solution to offer your clients.

Or…

Do both. That would be the healthiest response.