Big v's Boutique

In Service Based Businesses

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“. . .this book is written for you. . .”

If you’re in a growing, service-based business, or want to grow a business, then this book is written for you

Manufacturing in Australia is dying, retailers are getting hammered, and it seems services are the last bastion of a decent return for your efforts. If you’re in manufacturing or retail then you should at least look at adding a service to compliment your activities. This book will give you a few ideas to consider.

Services come in all shapes and sizes, from plumbers, truck drivers and accountants, to lawyers, fitness trainers and musicians. Name anything that uses a ’human‘ to serve others in some way shape or form, then it’s a service.

Demand for services is high. Finding people to fill that demand, however, especially good people, is not so easy, and often causes the greatest growing pains.

This book promotes growth. Generally, as in life, without growth a business will wither and die. This book shows that growth can be achieved in many different ways, offering a new solution by combining the benefits of a big business with the magical benefits of being a boutique business.

So, join me on this journey. It's a short read and intended to be thought provoking. So think about your service business as you read.

Dr. Steven Enticott.

About the Author

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"...visualise your dilemma. . ."

Visualise your dilemma. You have built up a successful, service-based business that revolves around you. You've done this by providing great customer service and technical skill. You have gone the extra yard to help your customers because you had the time, drive and the ability to do so, but now you are overloaded. You now have a choice to make and it is a matter of balance. Do you go big, boutique (specialise), or stay as stressed as you currently are?

As the business grew, the customers loved the service you offered and referred it to others, which is great. We all like the income and capital growth that new customers bring. It doesn't matter if you are trading as a sole operator, small partnership, company, trust, or even with a few staff members (who have less knowledge than you do). The principles remain the same. Further, the type of industry you're in doesn't matter either. Trades, storage, accounting, repairs, tailoring, information technology, or any other service-based businesses, the same principals, with subtle variations, apply across the board.

The problems only begin to emerge when you reach the saturation point. You're simply too busy to provide the service you used to provide, and across-the-board dissatisfaction sets in: personal dissatisfaction, because being overloaded means you aren't really enjoying the business anymore; and customer dissatisfaction, because you aren't providing the same level of service they're used to.

The decision to move to a boutique operation or big one can be as simple as a lifestyle choice (pulling back) or a success choice (building a big business). Whatever your motivation, this book explores both paths, while offering a third alternative, which is a mixture of the two (a hybrid).

"... let's consider a 'river'..."

For the purposes of this exercise, let's consider a 'river' metaphor. Imagine that at this moment in time you're standing on the bank of a river. On the other side is your business, 'all grown up'. To get there, though, you have to cross a fierce-looking torrent. In addition, even if you think you've found an easier point to cross at – one that may appear relatively calm – you must still beware. There may still be strong under-currents that could catch you out.

This river is also full of hidden dangers that can quickly pull you off your feet: capital requirements; staff; work-cover costs; payroll tax; superannuation; time; financial hardship; the risk of losing it all; lack of resources; and the list goes on. The dangers seem almost endless. However, all of these challenges must be met if you’re going to reach the side where a successful big business resides.

Your other alternative is to stay where you are, not to cross the river. However, you and your customers will never be satisfied with this position. As your service levels continue to drop, customer tension and dissatisfaction will increase, and your customers will leave, but you continue to generate new customers in what I call a ‘vicious time-wasting circle’ (which I will discuss in a moment). In the worst case, you lose more than you gain and the business that you have worked so hard to build starts to go backwards. But maybe this isn’t the worst case. Maybe the worst case is that you actually manage to receive more referrals than losses, which will increase the dissatisfaction felt by both you and your customers.

Back to my ‘vicious time-wasting circle’. Think of the amount of time you spend bringing a new customer on board, the advertising costs, set-up costs, administration costs, and relationship building. In reality, it’s much easier to keep and maintain customers you have already built a relationship with.

In a service-based industry, proactivity is a major tool for maintaining and building your business from within, while sadly, customer dissatisfaction and departure is a symptom of the exact opposite.

Before you reached the river, when you looked at your own list of customers (your database), you always spotted opportunity, served your customers well, and provided ideas and solutions. You felt satisfied and your customers did, too. Now you’re simply too busy, you’re not looking to your database for opportunities, and you’re struggling to find the time to service everyone, let alone actively looking for new opportunities. In reality, your customers trust you, want to be served by you, and are willing to listen to any suggestions and/or opportunities. They rely on you for this proactivity. The problem is that you're not providing it because you're just too busy. You're letting them down.

The fact is, when you're truly standing at the river's edge, you're ignoring the best resource you have: your database. By using your database, you avoid the added dollar costs required to bring in new customers (administration and marketing costs), not to mention the extra time required to establish a new relationship. It's something you need to think about before you go chasing more work (crossing the river or going boutique and creating a niche). Look at your database and leverage it. Then move on to bringing in new customers.

It's a simple principal. If you don't serve your customers you will lose them. Whether you choose to build a big business or go boutique, before you spend money or time on external growth opportunities, you should look inwards first. Remember, your customers want proactivity, and will leave you if you don't supply it.

It's a common cycle, really, one I have observed on many occasions. A new operator will come along, chasing market share (in the growth stage - well before reaching the riverbank), offering the type of service that you used to offer. Then bang, you've lost the customer.

Now we've had a good look at what confronts us, let's now look at crossing the 'river' and growing our business. To do this, we need to examine the most common alternatives to survive and get across to the other side.

“The best way to grow a business. . .”

The best way to grow a business is to simplify and systemise. Most businesses can be systemised. If someone says that this cannot happen in their industry, then they’re simply wrong or just too busy to be able to see the wood for the trees. All businesses, to varying degrees, can be systemised.

What people fail to understand is that when you’re standing on the river bank, you’re in the perfect position to systemise. Your customers understand the need for change. In fact, they’re probably already starting to get tired of your excuses and will tolerate the adjustment. The most vital aspect is that you improve your service in this transition period. If you don’t, your customers will soon lose patience. To prevent this, show them the benefits of change and show it to them quickly.

Generally, business success comes in one of three ways:

“. . .luck. . .”, when someone falls into the right opportunity at the right time and success comes naturally.

“. . .capital. . .”, by throwing capital at a project and employing the best, with no costs spared.

“. . .hard work. . .”, through sheer hard work and determination: the lot that most of us are stuck with, unless we are lucky enough to have capital dripping from our ears.

The route requiring sheer hard work and determination is the focus for this book. It concentrates on small service businesses facing growth challenges arising from building a service business from scratch, with minimal equity and little luck!

“. . .the most important component. . .”

The most important component of growing a business is planning. Business planning makes things happen; a lack of planning leads to wondering what went wrong. Without a formally structured plan in place, the chances of success are slim, especially in a competitive service-based marketplace. There are a myriad of business books (notably, Gerber’s ‘E-myth’), consultants, courses, and advisors (like ourselves) who can help cross this river, but it also takes real commitment, capital, compromise, and courage.

“. . .one of the biggest issues. . .”

One of the biggest issues in building a service-based business is staff. In a service-based industry, effective staff is the key. Using the same principal as product in the manufacturing industry, the importance of staff in service-based business growth cannot be understated. The problem is that it’s almost impossible (I believe) over the long term to get staff/employees to provide the same level of service as you, and simply because it's not their business and they don't care as much. When they are diligent enough to care, then they will often appreciate the money and the opportunities you have created, and will want to be self-employed themselves, ending up either taking your customers with them or competing against you.

Staff leave for a myriad of reasons: health; family; babies; better offers; interstate moves; personality clashes; travel; and the list goes on. No matter the reason, exiting staff are a reality that must be considered, even if you're a fantastic boss and pay excellent wages.

However, by simplifying and systemising staff roles (like Mc Donald's does in the food industry) you take control of this key resource. Training and developing staff becomes easier and the threat of them leaving, and you having to replace them, eases. Likewise, the reliance the customer has on that staff member is transferred to a reliance on the business. The result is that if a key staff member leaves, the customer doesn't go with them.

"...the next important consideration..."

Delegation is the next important consideration. Remember, in a service-based industry, the customer likes to deal with you; you offer the best service and they do not want to deal with your juniors. However, customers also accept and understand that you cannot do everything, and will accept this situation as long as you're still the communication point and take responsibility for your juniors.

For example, let's say you clean one office at 5 pm each night of the week. Because you do a great job, one of your customers refers you to one of their business associates. You now have six offices to be cleaned at 5 pm over a five-day week. You now need to employ someone to help.

If you employ someone and send them to do the job, the level of service may not be as good as what you are offering now, and for the reasons I mentioned earlier. Alternatively, if it is, the employee/contractor may soon tire of receiving $20 an hour, especially when they know you're getting $45 an hour, and may decide to undercut you at $35 an hour. Everyone wins except you. All the time spent winning the customer, setting them up administratively, building a relationship, and training the staff member, has evaporated.

In this situation, the solution is still to employ someone, but rotate them between workplaces, turn up at the job with them, and make contact with the customer (so the customer still knows he's dealing with you). In other words, once a month or so, someone else cleans each customer's workplace, but three times a month the customer is served by you.

Continue this procedure right up until you personally are cleaning once a month or not at all. Rotate the staff and personally visit your customers at the start of jobs even if it's only once a month (this way the customer still knows they are dealing with you). Be the main phone contact and, above all, ensure the customer is fully served.

"... growing a business is a decision..."

Growing a business is a decision. Once you make the decision, you're fully committed to the whole process. You cannot be half-hearted, as you will surely tire of fighting the current and turn around and head back to the riverbank. Let this book not discourage you from taking the challenge. The aim here is to highlight some of the challenges and offer some alternatives.

Let's now take a look at how all this growth impacts upon profits, on the basis of hours worked by the principal for a given return (remember, this book is written from the perspective of service-based businesses; the principles differ in other industries).

"… .crossing the river. . ."

The development curve is steep, when crossing the river, if you look at the expended time verses profit return equation. Profits, as a percentage of your hours actually worked, dip. Profits may increase overall but you are certainly working harder for them.

The main reason for this is simple. You are accepting all types of work: the profitable; the not so profitable; and the work you may just break even on or from which you suffer a loss. The thing is your profits will be higher on a percentage-of-hours-worked basis if you simply take the good work and forget the bad.

The case for a boutique business, which is presented after this section, focuses on only accepting the 'good', and letting go or changing the way you do the 'bad' so as to make room for more 'good', (unless all your work is good, then we are in an excellent position to choose either path). We will examine that topic later. For the moment, let's focus on the general development curve of big business.

"...the general development curve..."

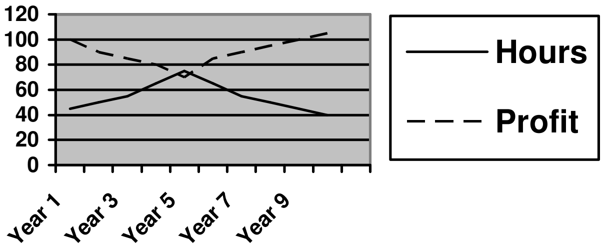
Other reasons that contribute to the dip generally focus on one staff member offering poor service, rushed jobs, rework, etc. These are costs. For example, let's say you have an apprentice you charge out at $50 per hour and pay $15 per hour. However, every fifth job requires re-work. This costs you time in customer service, time to go back and repair, and the time the apprentice spent (poorly) in the first place. It's another vicious circle. Remember that you, as the key service provider, are worth more than $50 per hour. The work you do, whether generating more work or higher-charged work, cannot now be done because you're fixing/organising other work.

Magnify this by 10 apprentices and you have no time left.

"...the key is for you to remember..."

The key is for you to remember the value of your time and the hours you work and to learn how to maximise this. When you do this, the profits will follow, but initially it takes time.

The following graph is offered only as an example, comes from my professional experience, and reflects no formal research in its construction.



You hit the riverbank. Crossing means you will need to dedicate more hours to the business and, as a percentage, the profit return on those hours will fall. However, if you stick at it and commit even more hours, returning less overall, then eventually, if the business succeeds, a better percentage return on your investment comes in.

“. . . The worst thing someone can do is to cross only half way. . .”

The worst thing someone can do is to cross only half way, then turn back to shore simply because the water was too cold or the current running too fast. I have seen it many times. People head into the river with hopes of crossing it, only to discover mid way that their income is dropping, taxes and on-costs are increasing, and finance is running out. Then they retreat. This is probably the worst result possible as all the money, time, and effort are wasted. Even when a business retreats, in time the cycle will only emerge again.

"... the boutique route as an alternative..."

It's time now to look at the boutique route as an alternative to developing a big business. This differs from the development cycle shown so far. Instead of a drop in profit for every hour worked, profit remains the same, and — if things are done correctly — increases over time, but never to the lofty heights that a successful big business generates. That's the trade off.

"...do it much better than an anyone else..."

Using our 'river' metaphor, the boutique alternative means you refuse to cross the river, walk along the banks, find an estuary, and find yourself a niche.

When I say niche, or use the word 'boutique', neither has to be in the truest sense of these words, or even in the form of a different service to the one you are offering now. It means doing what you're doing now, but doing it much better than anyone else, or focusing in on a certain type of customer or service you offer. This may mean sacking bad customers, and spending more time on your good ones.

Remember, bad customers consume too much of your time, but worse still, bad customers generally refer other bad customers to you. It is a must to break this cycle before it starts to consume your database.

Sometimes we need to free up some time to build the boutique business. In terms of things that may affect this, here are some of my pet hate time wasters.

“. . .travel. . .”

How many hours a day do you consume travelling? Some service industries obviously need to travel, like industrial cleaning and electrical work, but many service industries can save money by not travelling and using couriers to deliver or pick up items for repair, delivering goods to sites, etc. Stick to your local area, or learn the value of a courier. At around $10 to deliver across town same day, why would you do it yourself?

Alternatively, move your on-the-road service to an in-house service. I believe that perceptions are changing. Customers no longer mind travelling to see you. Where it was the norm for service-providing professionals to do home visits, I actually don't think people feel comfortable inviting you into their home/business, etc. The cost of a serviced office or a sub lease on an office is minimal, and your productivity soars.

". . .quoting. . ."

Nearly everyone I meet in the service industry complains about how much time is wasted on quoting. My answer is, 'avoid it'. Instead, give prices for products. For example, how much for a power point, replacement antenna installation, new hard drive in a computer, a standard office clean, an hourly rate, etc. Explain that the prices you give are for general work, and if you encounter any problems, you will contact them, explain the difficulty, and advise them of the extra costs involved. In the overwhelming majority of cases, the customer will simply accept this and approve. If they don't, then move on (it will rarely happen).

For bigger jobs that do require a quote, work on building relationships so your quote can be informal, based on earned trust, and quick. Make sure you always err on the side of caution, and only raise issues above your quoted price if they really are unforeseeable.

Remember, your time is a valuable commodity; waste as little as possible on quoting. Maybe even consider a quoting fee on jobs, where you feel you have little chance of winning or if you feel the customer is just playing you off against a competitor.

"... the trap of one customer..."

The worst thing you can do is to focus on only one customer, thereby putting all your eggs in one basket. Spread your risk. That way, if one customer goes down or uses someone else, you still survive. I have seen this in the past with clients who, on paper, have a very successful business, only to see it disappear when a major retail chain decides to buy elsewhere. Diversification is the key. If you are stuck with one or more major clients, then make sure you service them and stay at the head of your competitive market place, because someone is surely looking at you and your market share.

In the boutique, there is only one golden rule: service and quality of service. Raise your level of service and the referrals will flow, customer retention will be excellent, and the profits will increase.

Simplistically, in business there are three factors: service, quality and price. You only need two factors to be profitable. If you offer all three, then success is guaranteed. Boutiques offer all three with a reduced focus on price. In addition, a key to running a profitable boutique is reduced costs and minimal overheads. The result is that when you work, it’s all cream, and when you take on extra work or harvest extra work from your database, then it’s cream and cream of the sweetest kind.

For example, imagine you are in the service-based business of tree lopping. You currently cut the trees down and mulch them, or take away the timber. So why not ‘value add’? You already have an existing customer and you are there on the spot. Instead of cutting the logs up for firewood and leaving them there for passers-by to pick up, why not take them with you. Why not establish a yard where you dry the wood, and then split and sell it. Even better still, if the tree you have cut down is of a good quality, why not establish relationships with saw millers, or mill it yourself in the yard you have for firewood, and sell it directly to woodworkers? In this yard you establish, you could also sell the mulch, instead of leaving it or getting rid of it cheaply, or even worse, paying for its disposal.

“. . .strengths, weaknesses, opportunities and threats. . .”

Most of us know what a SWOT analysis is. Simply, it is a review of the strengths, weaknesses, opportunities and threats facing a business. This long-standing, simple procedure can be used to find a starting point when adopting boutique-based business strategies, right through to monitoring and evaluating the ongoing performance.

Regardless of where your business is in terms of the growth stage, it is important to continue to monitor your position. SWOT is simple and you should sit down (preferably with your advisors) and go through the analysis on a regular basis. It’s surprising what it will throw up when you put aside the time.

One final suggestion is to sell products you consume in your service industry. That is, selling the consumables you use, but at a marked-up price. For example, imagine you are in the storage industry and consume vast amounts of storage boxes and storage systems. You have very good buying power with these products due to your consumption, so why not sell the consumable for a profit to people moving houses, businesses using on-site storage, etc.

"... two choices..."

Is it that simple? To either build your business fully committed, or take up an estuary and find a niche?

For this book, 'yes'; you can stay where you are and survive, but as we discussed earlier, it is very dissatisfying for all involved (both your customers and yourself). In the long run, the benefits flowing from a successful big business are greater than a boutique business. There is more money and, importantly, a greater capital value for the business. However, it is also important to remember that creating a big business is a long haul, and sacrifices must be made. Don't undertake this type of growth unless you are fully committed. Plan it thoroughly, and the rewards are there if the business service is sound.

On the other hand, finding a niche offers lifestyle benefits, better profitability in the short to mid term, and a steady income for the long term. I’m finding more and more people are taking this ‘sea-change’ approach, and focusing more on lifestyle, parenthood, etc.

This touches on another favourite topic of mine, which we won’t cover in detail here. This is the concept of working flat out to achieve early retirement, verses later retirement with a focus on fewer business commitments.

“. . . why retire at fifty-five. . .”

Why work hard to retire at 55? One of the downsides of dealing with thousands of people a year is that people sometimes don’t make it to 55, or their quality of life is poor due to a medical condition. Pace yourself; work longer.

A theory I’m working on is to do four days a week at 40, three days a week at 50, two days a week at 60 and beyond, thereby avoiding the need to stockpile heaps of super to get through the final years. This requires planning, reducing debt/overheads, and a level of insurance cover for life, trauma and income-protection issues.

My conclusion offers a solution: that of mixing the two approaches to form a simple hybrid. Let's now take a look at this possible scenario.

> "Boutique *and* big?"

It's possible to become big and yet remain a boutique business. One way is to bring in juniors/trainees/apprentices, and train them well. Once they get to the point where you can't economically pay them enough to keep them (meaning they may go out into the marketplace on their own), you then sell part of your business to them, or help establish them in business and keep the network you have built alive.

This network is controlled by you (while it, too, is making a profit) through a service trust/administrative entity, so all parties receive the economies of scale for the costs (as do you) that a large business achieves, while keeping all your staff in the loop when they progress to the point of self-employment.

Imagine ten small businesses operating together in the same industry, combining their buying power to purchase materials, reducing costs to share administration expenses, and covering for each other when the other needs a break and with the ability to work together on large jobs. An extension of the buying-group theme, there are many advantages to this approach.

The key here is to develop your staff. This way you keep a carrot in front of them (staff retention benefits). Be careful not to be greedy, though, by hanging onto them for too long. Think of the costs of losing some of your customers to them, retraining/employing someone else, and getting back business to replace what you've lost.

For example, imagine a draftsperson who performs excellent work, and who receives more and more referrals due to their quality of service. He is now at the banks of the river and makes the decision to hybridise by mixing big and boutique. To do this he employs two graduates straight from university who have the technical skills, but lack their employer's maturity and real-world experience. The wages he pays at this level are the base (cheap). The draftsperson now partly pulls back from the easier work, and develops systems so his graduates can easily understand his requirements, and work with minimal supervision. This is the key. The systems must be simple and straightforward, and leave no room for his graduates to depart from them.

This frees up the draftsperson to focus on his customer database, providing proactivity and fantastic service, which leads to more referrals. This also frees up the draftsperson to chase new work, both from his existing customers and from new customers entirely. The result is that that the business continues to grow.

The deviation occurs three years down the track when the graduates are now making higher pay demands, are experienced, and can see the amount of money they too can make if they go out on their own. One is still happy to stay on as an employee for another couple of years, but the other is keen to move on.

The draftsman solves this dilemma by selling part of his database to the graduate wanting to leave, and sets up an administrative entity so he can stop paying a salary and they can begin to share IT costs, rental costs, photocopier costs and various other business overheads. He then retains the customers he wants to keep, assists his graduate's career path, and retains the benefits of shared knowledge and the ability to cover for each other when on holiday, etc.

The business now suffers a drop in profitability due to a drop in fees, but makes savings on one graduate's wage, and through the economies of scale achieved from sharing overheads. This solution also frees the draftsman to pursue more work, either internally or externally, and the model grows.

"... the be-all and end-all..."

This book is not intended to be the be-all and end-all of knowledge on this topic. Every single business and situation is different, and there are other alternatives. The book's message comes from my own experience in service-based businesses, and from working with clients in the service industry. That said, many of the key points from this book are transferable to most service-based situations. Solutions to whatever confronts you are there, and I challenge anyone who says they cannot do it to sit down with me and work through it. Changes can be made in every situation. The extent of that change is all that differs. It takes a lateral-thinking advisor to help your service business grow; someone who knows the service industry and can adapt his or her thinking to yours.

Accountants and advisors are in the service-based business themselves, and are ideally suited to help. The service they offer you is a reflection of the advice they can offer. It's simple, really: if their service is lousy, then don't take their advice; if it's good, find out what they're doing and adapt it to your situation.

If we can help you — and we would love to help — please don't hesitate to let us know at

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