



## Business Building – There’s only one way!

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### Traditionally

Business is best defined as: “Creating wealth through profitable transactions”

I came to this definition many years ago after having won a job as General Manager of a medium sized company and later boasting to a friend that revenue has increased three fold under my guidance. “Great he said, but what about profit”?

This was a great question.

Business is about profits, and indeed every department within a business should be contributing to that, even if they are so called “off-line activities” such as perhaps the training manager or the IT Department.

### The Simple Arithmetic

In simplistic terms the profit and loss sheet tells the story of a business and is comprised of just three components:

- 1 REVENUE
- 2 COSTS
- 3 PROFIT

### Reduce costs and reap the benefit?

There are just two ways to increase profit.

The first is to reduce costs, thus profits will naturally rise. But beware of the old adage: “*You can’t cost cut your way to prosperity*”. This is so true.

Many initiatives such as “Lean”, “Continuous Improvement”, “Six Sigma” and a host of other efficiency measures target the cost elements of a business. Unfortunately, although these may make you more competitive they will not make you competitive against low cost labour countries, nor in general will they increase the landscape of opportunity. Put simply, they just allow for more profitable operations from the same revenue base.

### Business Building

The only way to increase your business in real terms is to focus on building the top line, the revenue, and there are only three ways that can be achieved.

#### 1 More Sales to the same market

This is easily achieved as a short term measure by the addition of sales staff, increased incentives and perhaps more advertising and promotions. But this is not a sustainable endeavour and is too

easily matched by competitors. Indeed increased expenditure on sales endeavours may be seen as the reciprocal of price cutting aimed at increasing market share. In price cutting, the customer is the only winner. Furthermore this initiative is again easily matched by competitors.

## **2 New Markets for the same products**

Opening up new markets, perhaps exporting or entering places where products of your type have never before been sold is another way to increase revenue, but this is both expensive and can be extremely risky. Furthermore, once you have done all the work in creating a new market – guess what – you have now laid the perfect foundation for your competitors to follow. This alone is not a good sustainable strategy on which to build your business.

### **So what's the third?**

The third and only way to continue to expand your business is to constantly provide new and improved products and services and new ways of doing business – this is innovation. The search for new ways must be sustained and endless or you can be sure business stagnation and eventual failure will be the result.

Indeed, as stated in some of my earlier work, statistics from USA based research cite the life expectancy of a publicly listed company in the USA today as being less than ten years, compared with some 65 years in the 1920's.

Companies that fail to innovate, ultimately fail to exist.

### **Innovation and Opportunity Capture is the Answer!**

Most business people would acknowledge that innovation is the answer, but unfortunately many confuse innovation with the abstraction of "creativity" and have not given sufficient time to understanding the difference.

In short, innovation when properly applied is a tried, proven and rigorous tool for business building.

Even less understood than innovation is the formal process of "Opportunity Capture".

Indeed you can easily show your people how to embrace the exciting and systematic discipline of opportunity capture, and it's all so easy.

### **Where to from here**

There can be little doubt that the third way of new and improved products and services and ways of doing business is the only way to reliably grow a business.

So after the cost removal processes have been initiated, it may be time to start addressing the top line.

That's the way to build a business.

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