



DYNAMIC ADVISORY SOLUTIONS

Financial and Strategic Integrators

How Our Clients Are Thriving in This Economy

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Introduction

As a management consultant, I see many companies today that are simply not performing well. Business as usual just isn't that usual anymore. It's just not enough to have a good business product or service. You also need a solid marketing plan, adequate financing, and flawless execution by your staff. One misstep can have catastrophic consequences.

The economy and business markets are in tremendous flux. Globalization, technology, and the changing workforce will not allow you to keep doing business the way business has always been done.

You have to evolve.

For this year, and for the coming decades, staying agile is key. Now more than ever, you have to excel in contingency planning, make faster decisions, and strategically adjust to a multitude of shifting conditions to flourish. For this reason, I created this white paper.

Principles like realistic planning, proper cash management, and performance metrics need to be a part of every business plan. You also need to be capable of capitalizing on the opportunities in the marketplace. Many of our clients have learned to take these ideas and apply them to increase their profitability, acquire new businesses, gain market share, and thrive even in the harshest of conditions. And, you can too.

At the end of this report you will find my contact information, as well my offer for a complimentary consultation. If what you read here makes sense to you and you are ready to take your business into the next decade, give me a call.

Thank you for your attention and interest. Please let me know how I can be of service.

To your success!

Ren J. Carlton, CPA, CSMC
President, Dynamic Advisory Solutions

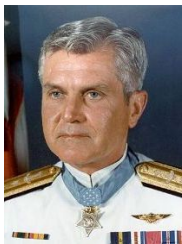
Realistic Planning

“Fear is what gets me out of bed every morning” ~ Ren J. Carlton, CEO of DAS Professional

Let’s get real - thriving in business today takes a steel will. You have to drink fear as morning coffee and destroy doubt by lunch. You have to put your full focus on your business while keeping a watchful eye on uncertainties. You have to look the beast of The Unknown straight in the face and not flinch.

Maybe more painful to face, though, is what you do know. You have to face the brutal facts yet never give up. The brutal facts force you to take off the blindfolds. They open your eyes to how you run your business. Whether it’s cleaning up your balance sheet, unwinding an overleveraged credit situation, or adjusting to unforeseen market disruptions, you have to face the brutal facts. And, you have to think through the potential solutions and resolve to persevere.

Jim Collins, author of the best-selling business book [*Good to Great*](#), sums it up as he describes his pivotal meeting with Admiral James Stockdale, a decorated military hero who survived more than seven years as a POW during the Vietnam War. Stockdale’s story brings the need for the right attitude into stark relief.



Admiral Stockdale was the highest ranking military officer in the “Hanoi Hilton” prisoner-of-war camp. He was tortured over 20 different times during those nearly eight years and lived his days with no prisoners’ rights, no set release date, and no certainty that he would survive to see his family again. When asked how he made it through, he said this: “I never lost faith in the end of the story. I never doubted not only that I would get out, but also that I would prevail in the end and turn the experience into the defining event of my life, which in retrospect, I would not trade.”

Collins asked Admiral Stockdale further, “Who didn’t make it out?”

Without hesitation, Stockdale replied, “The optimists. Oh, they were the ones who said ‘We’re going to be out by Christmas.’ And Christmas would come and go. Then they’d say, ‘We’re going to be out by Easter.’ And Easter would come, and Easter would go. And then Thanksgiving, and then it would be Christmas again. And they died of a broken heart.”

After a long pause, Stockdale continued, “This is a very important lesson. You must never confuse faith that you will prevail in the end – which you can never afford to lose – with the discipline to confront the most brutal facts of your current reality, whatever they might be.” This survivor’s attitude is the Stockdale Paradox.

It’s hard to compare the daily grind of business to the horrors of a Vietnam POW camp. But, the Stockdale Paradox proves that constraints can be overcome by your true grit. Even in the worst of circumstances, having a survivor’s mindset pays off. When you build your business plan and budget for the future, it is critical to focus on the reality of your situation. Don’t plan for \$10 million in sales when you will be lucky to get \$8 million. There are a number of techniques our firm uses to take some of the guesswork (and unrealistic optimism) out of the planning process.

One of my clients told me they were planning on having \$20 million in sales for the current year. After analyzing historical and current trends, I questioned his assertion. After a very difficult conversation, we settled on a plan based on \$15 million in revenue (which I still considered a bit optimistic).

The business ended up with approximately \$14 million in sales. Although their budget was off, it was not off by much (especially relative to the initial plan). The company was also profitable. I am confident they would not have been so fortunate had they acted like a \$20 million dollar company (think about the differences in headcount, purchasing, and space requirements, etc.)



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Realistic Planning (con't)

Another negative impact of unrealistic expectations is what Reldan S. Nadler, Psy D, in his book [Leaders' Playbook](#), calls "The Perfection Loop."

Nadler states "Success-driven people always set goals for themselves, but often these goals set them up for failure or frustration. Why? Because the goals are unrealistic to start with and constitute a pattern that is a set-up for failure. This can lead to 'Being on Your Case' and becoming dissatisfied with performance."

Nadler continues "There are three key reasons for this pattern. One, these expectations are made without the benefit of critical thinking. Two, once made, the expectations are no longer examined for their accuracy or realism. Three, these unrealistic expectations are adhered to as the Golden Rule and clung to tenaciously."

In summary, Nadler concludes "Striving for perfection, a characteristic which once served as a standard for effort, quality, satisfaction, and acknowledgement, now acts as a carrier for the 'more, better, faster' self-evaluation cycle. If left unexamined, perfection changes from a motivating driver to a relentless torturer."

Whether you suffer at the hands of a real life ruthless enemy or from a mental torture of your own creation, you have choices to make when it comes to your attitude. It takes realistic planning, not optimistic naiveté or the relentless pursuit of an unrealistic standard, to thrive in a harsh environment. It's time to examine your viewpoint and make the needed adjustments.



Monitoring Performance with Financial Data

I know that half of my advertising dollars are wasted ... I just don't know which half" ~ John Wanamaker

If you think running a business is tough, try doing it blindfolded! The proper financial data is critical to making good business decisions. Whether you are buying a piece of equipment, considering expansion, or planning for taxes, you need to have a clear understanding of where your business is (and where it is headed).

Timely and accurate financial information is critical. It is a truly objective way to evaluate performance. Below is a sample of the financial information we use to monitor our clients' performance.

1. Financial Statements
 - a. Income Statement
 - b. Balance Sheet
 - c. Statement of Retained Earnings
 - d. Statement of Cash Flow
2. Management Reports
 - a. Budget-to-Actual Analysis
 - b. Projection Reports
 - c. Prospect/Pipeline Report
 - d. Call Sheets
 - e. Profitability Reports
 - f. Production Report
 - g. Quality Reports



I had a client that manufactured "widgets". When we were hired, I asked the client how much money he made manufacturing "Widget X" (their most popular product). The client told me he was making 40% profit on every Widget X he manufactured. When I asked him how he knew this he told me "he had been doing this for 30 years and he just knew". After producing a *Profitability by Product Line* report, we discovered our client was actually LOSING 10% on every Widget X. No wonder it was such a popular product!

As early as 1997, when President Bill Clinton created the National Performance Review (NPR) to work to reinvent and update government, performance measures have been proven crucial. As documented in its June 1997 report, the NPR Performance Measurement Study Team found that "the best performance measurement and management systems and practices work within a context of strategic planning that takes its cue from customer needs and customer service.



Monitoring Performance with Financial Data (con't)

The Performance Measurement Study Team also found that:

- Leadership is critical in designing and deploying effective performance measurement and management systems.
- A conceptual framework is needed for the performance measurement and management system.
- Effective internal and external communications are the keys to successful performance measurement.
- Accountability for results must be clearly assigned and well-understood.
- Performance measurement systems must provide intelligent information for decision makers, not just compile data.
- Compensation, rewards, and recognition should be linked to performance measurements.
- Performance measurement systems should be positive, not punitive.
- Results and progress toward program commitments should be openly shared with employees, customers, and stakeholders.”

Further substantial research and data can be found in [*The Performance-Based Management Handbook*](#), a six volume compilation of tools and techniques by The Performance-Based Management Special Interest Group (PBM SIG). This handbook describes three different approaches to developing performance measures; provides sections on performance indexing, data analysis, and reporting techniques; and includes a thorough glossary of terms, an inclusive list of references, and a substantial list of sample performance measures.

By implementing performance metrics tied to financial results, you will attract individuals who appreciate knowing what's expected. This gives your business the ability to build a team of employees that thrive on meeting and exceeding expectations.



Utilization of Employee Metrics

“People are definitely a company's greatest asset. It doesn't make any difference whether the product is cars or cosmetics. A company is only as good as the people it keeps.” ~ Mary Kay Ash, cosmetics mogul

Employee performance is tricky - the very act of measurement will change it. Even if the yardstick is not explicitly linked to pay, people know that you are measuring because it's important. Establishing employee scorecards allows you to more successfully manage your team across departments and changing business environments.

For your staff to fully implement your vision, they have to understand the expectations. That expectation needs to integrate financial, customer service, internal business systems, and innovation perspectives. You will more readily and directly achieve your company's goals by fully leveraging your human resources through metrics.



Leading research repeatedly supports the value of human resources and their performance in your company's success. As presented in the research report [“Human Resource Management”](#) created by Forrester Research, Inc. (Nasdaq: FORR), “It's no secret that talent is a firm's greatest asset and that talent initiatives are under the microscope of the C-suite. Why? Because labor costs account for 36% of total operating costs and 30% of total revenues for US companies, employees are the differentiating factor for most firms, and slight improvements in employee productivity have a great impact on bottom-line results.”

Forrester estimates that organizations will spend more than \$7 billion in 2009 on human resource management (HRM) software alone. They further illustrate the value of using systemic tools with the following graphic showing the areas of potential benefits of an HRM software application.

The Four Pillars Of Talent Management



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Source: Forrester Research, Inc.



Utilization of Employee Metrics (con't)

According to Forrester’s research, “An effective HRM application and technology strategy will help you realize several tactical and strategic benefits — from wringing out transactional process inefficiencies to fostering a loyal and high-performing employee base.” To further illustrate the value of proper implementation and tracking of performance metrics, Forrester offers the following chart:

Benefits Of An Effective HRM Apps Strategy

Process	Strategic benefits	Tactical benefits
Recruiting	<ul style="list-style-type: none"> • Hire better talent whose success is more predictable • Build a compelling employment brand • Embed Web 2.0 technologies to attract the Millennials 	<ul style="list-style-type: none"> • Reduce cost per hire • Decrease time to hire • Ensure statutory compliance
Learning	<ul style="list-style-type: none"> • Capture and transfer tribal knowledge from exiting Baby Boomers to Gen Xers and Millennials • Create career plans that foster employee loyalty and retention • Offer varied learning offerings for different generations 	<ul style="list-style-type: none"> • Manage course curriculum • Manage and track course completion and learning budgets • Meet compliance and regulatory requirements
Performance	<ul style="list-style-type: none"> • Create succession plans that foster employee loyalty and retention • Align individual goals with organizational goals • Create consistent competencies for assessment, promotion, pay, and hiring • Provide visibility into top performers 	<ul style="list-style-type: none"> • Automate the performance review process • Improve performance process compliance and consistency
Compensation	<ul style="list-style-type: none"> • Create a pay-for-performance culture • Ensure pay equity • Forecast future workforce budgets 	<ul style="list-style-type: none"> • Price jobs consistent with the market • Prevent overpayments • Manage other incentives such as stock, lump payments, and commission plans • Effectively administer salaries
HRMS	No strategic benefits	<ul style="list-style-type: none"> • Increase efficiencies for highly transactional processes (e.g., payroll) • Manage employee records and transactions • Create a foundation for other HRM processes and systems

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Source: Forrester Research, Inc.



Utilization of Employee Metrics (con't)

For our clients, we use a much simpler approach. We identify 2-4 metrics for each employee of the organization. We then set up a system for tracking and reporting these metrics on a monthly basis. Below are a sample of some of the metrics we use for our clients

1. CEO
 - a. Growth
 - b. Profitability
 - c. ROI
2. Sales
 - a. Total Sales:
 - b. Sales From New Clients
 - c. Reoccurring Sales From Existing Clients
 - d. Gross Profit on Sales
3. Operations
 - a. Units Produced:
 - b. Rework
 - c. Scrap
 - d. Inventory Turns

Whether you choose to use software or manual processes, the message is clear. You need a system in order to drive the results you wish to achieve from your employees.

This might mean you have to create these measurements and do some house cleaning of your current staff. Admittedly, that can be uncomfortable. And, yes, it can be complex to build a system that can't be gamed, that actually achieves all the results (not just the financial ones) that you desire. It can be done and it needs to be done for you to thrive fully. For too many companies, it needs to be done to survive at all.

The same goes for a company scorecard, not only your company but your supply chain vendors also. The more you include a focus on the bottom line as a requisite for working with you, the better off you will be. Clear communication, concrete expectation, and a strong feedback delivery system serve to strengthen every link in the chain.

Burying your head in the sand or pushing the details aside to take care of themselves is abdicating your responsibility as CEO. That attitude is not good leadership and certainly not embracing the potential you have to profit handsomely. Remember – it is better to face the brutal facts and persevere rather than live like a Pollyanna, especially in harsh circumstances. It might be a challenge at first blush to implement these measurement tools, but ultimately, it will make you and your business better able to withstand the winds of change. You will be more likely to thrive when others are leaving the market and closing up shop.



Protection of Cash Reserves

“Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are.” ~ James W. Frick

When credit markets tighten, businesses that practice proper cash management will ultimately have the upper hand. Banks are still lending new money to companies that adhere to solid practices. If your business is highly leveraged you are likely in trouble. A key to sustainability is to avoid getting yourself into that position to begin with.



A good start is establishing good processes to manage your existing cash. Whether it is proper invoicing, management of accounts receivable, or delaying accounts payable, management of cash is a great way to obtain interest-free cash availability. In one situation, we were able to cut a client's financing needs in half through implementation of a new invoicing/accounts receivable process.

I consider financing availability as business continuing insurance. Bad businesses with cash can continue operating, good businesses without cash will fail. When it comes to finding outside financing, relationships are gold. We help our clients by maintaining relationships with a wide variety of banks, asset-based lenders, subordinated debt providers, and private equity investors. That way we almost always have a financing source that will meet our clients' needs.

Betsy Flanagan of Startup Studio interviewed venture capitalist David Hornik of August Capital and the creator of VentureBlog to get his take on the value of relationships in lending. In their AllBusiness.com interview, [“The Right Way to Raise Money From a Venture Capitalist”](#), Hornik states that when an entrepreneur solicits him for capital, he calls their kindergarten teacher, everyone they've ever worked with, their neighbors – pretty much anyone who has had any kind of substantial contact with the applicant.

Hornik sums it up by saying, “People, people, people. It's all about the people...If you take money from someone you don't know, like, and trust, and generally think is the right person, it's a little like marrying someone you don't trust and respect and think is the right person. Eventually that will likely not turn out that well.”

Clearly, if you think it's just about the numbers, it's time to rethink your approach. The numbers are important and your CFO needs to be realistically and effectively managing your cash and credit profile. But you also have to spend time building relationships with a variety of lenders so they can get to know you and you can get to know them. You also need to keep your existing bank happy.



Protection of Cash Reserves (con't)

Here are some additional tips to help keep your bank happy:

1. Produce timely and accurate financial data: Banks will assume the worst until you prove otherwise. The proof is in timely and accurate financial data.
2. Use additional services: You are going to incur these costs anyway, why not enhance your banking relationship? Whether it is merchant services (credit card processing), financial planning, or deposit relationship, additional services make you more profitable to a bank. This also gives you additional relationships with the bank. You never know when you may need leverage these relationships.
3. Over-communicate: Banks don't like surprises. In most circumstances, the earlier you notify the bank of extraordinary events the better. Events that may warrant a conversation with your bank include large capital expenditure projects, late payments, acquisition/divestiture activity.
4. Report good numbers: Performing businesses makes everyone happy. From the banking perspective, it validates the business plan and management team.



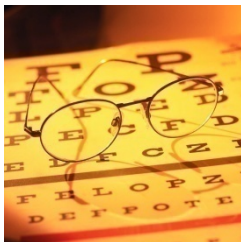
Capitalizing on Opportunities

“The man who grasps an opportunity as it is paraded before him, nine times out of ten makes a success, but the man who makes his own opportunities is, barring an accident, a sure-fire success” ~ Dale Carnegie, author of *How to Win Friends and Influence People*

Let’s face it – hard economic times lead to blood in the streets. Sometimes business upsets are due to poorly managed organizations. Sometimes unforeseen and unavoidable market shifts cause disastrous upheavals. Downsizing, bankruptcy, mergers and more create a business landscape of opportunity if you’re positioned well to capitalize on it.

Buying businesses is one way you can thrive during downturns. If you’re hurting, don’t you think your competitors are too? The trick is to buy the right businesses rather than simply adopt someone else’s headache. So, how do you do that?

You need to make $1 + 1 = 3$. You do that by knowing your industry, having a realistic picture of what it takes to be successful, and taking action when opportunity knocks. Armed with the right approach, you don’t even have to wait for a lucky opportunity to find you. You can go out and invite those opportunities directly!



Our firm uses an extremely proactive approach to finding companies for our clients to acquire. We create a profile of the ideal acquisition target, we then search our extensive business databases to compile a list of potential acquisition targets, and then we confidentially approach the companies on the list of potential acquisition targets. Using this technique, we were able to help one of our clients buy a business for an amount 60% less than the market rate.

When evaluating potential target companies, you need to look at underutilized strengths in the company you’re considering acquiring. If there are viable markets that were never penetrated, that goes in the plus column. If their business processes are crazy yet you know how to fix them, put that in the plus column. Is the owner bankrupting the company in order to fund an extravagant lifestyle? That’s easy enough to fix. Being able to separate the facts from fiction and knowing what changes you can bring to the table is imperative. With that knowledge, you will very likely find diamonds to polish.

Deeply discounted equipment acquisition is another smart move. Great bargains for new or nearly new items can literally show up overnight and you have to be ready to take action. If you’ve been using your financial data to understand and track your capital asset requirements, you’ll be able to proactively purchase needed equipment at fire sale prices. You have to know what you need, understand the revenue potential, and have ready sources of investment funds on tap.

Take IT equipment for instance. In an article entitled “[Tight Economy Renews Interest in Used IT Equipment](#)”, available on ChannelInsider.com, “solution providers who specialize in refurbished equipment are seeing signs of real growth in 2009, thanks to an abundance of nearly new IT equipment entering the product stream coupled with slashed IT budgets.”

“This economic environment has changed the perception significantly,” said Mike Sheldon, president and CEO of Network Hardware Resale, a used networking equipment reseller based in Santa Barbara, Calif. “In the last 12 months we have been able to get basically every conceivable product out there. Many are brand new and most are less than a year old. Buyers can get some pretty good deals.”

Corey Donovan, vice president of operations at Minnetonka, Minn.-based Vibrant Technologies, agrees. “It’s a good opportunity for buyers now. Prices are lower than they have been since the dot-com implosion with a lot of up-to-date equipment.”



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Capitalizing on Opportunities (con't)

It's not all a bed of roses, though. In a survey done by Test and Measurement World (TMWorld.com), "...there is increased demand for used equipment as buyers can save approximately 40% on the price while still receiving product support along with a warranty similar to when they purchase new equipment. But the purchase of used equipment still requires capital expenditures, and tight budgets can limit the growth of the used test equipment market, though at a lesser extent than the new equipment market."

The message? Great deals can be had by the businesses who know their bottom line and can move on opportunities when they show up. By systematically analyzing your goals, needs, and processes, you can turn crisis into opportunity. Not only do you gain valuable assets to build your business, but you also help out the business owners in a less fortunate situation than you. You can be, as Carnegie notes, a sure-fire success.



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Conclusion – Now What?

I hope the picture has become entirely clear to you that the way to thrive today is different than it was even just a few years ago. The good news is that with the right survivor's mindset and management tools, you can thrive. You can take your company and build it into the future.

The downside, if we are being completely honest here, is that you have to be even more diligent and focused than ever before. If you've built a career where you thought you might be sliding into home base at this point, coasting on the glory years of your company, you might be in for a rude awakening. The times just don't allow for that. The "cash cow" concept, where you live on the swelling revenues of a maturing business that you don't have to tinker with too much is not one you can count on. A leaner, more dynamic model has evolved and you can use it to your advantage.

So, where do you go from here? That's up to you. I would start with an honest and thorough examination of the processes you already have in place. Do you have realistic expectations, with full faith you will persevere even while you face the brutal facts of your industry? Are you committed to getting solid, real world results? Are you willing to put everything on the table for review? Is your current staff well suited to the changes you might need to make going into the future? Do your business systems give you data you can realistically use to make lightening fast decisions?

In the last few years and even months, we've seen the death of some of the largest and oldest companies in America. These were companies that we all thought would be around forever. These companies, born at the beginning of the Industrial Revolution in the financial, automobile, and publishing sectors, ultimately, were not able to withstand the changing times.

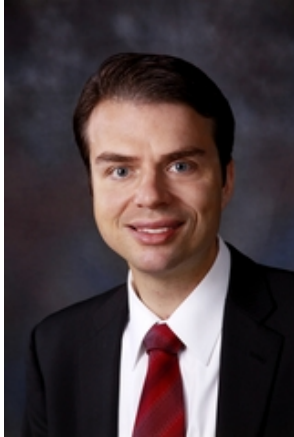
Whatever your politics and for whatever reason you feel these great giants fell, I think it is easy to agree that you don't want to write your own company's epitaph. The truth is this – I believe you have the potential to come out of these turbulent times better positioned than you went in. It is going to take hard work, honest evaluation, and difficult choices. It is going to take allowing experts, whether internal to your firm or hired from without, to dismantle what is not working. It is going to mean rebuilding for the future, applying these principles we've covered here and taking action.

Next, I would suggest you consider getting some help. You owe it to yourself, your company, your staff, and your family to apply your full force at this. Whether it's my company or someone else's you reach out to, recognize the value of a new pair of eyes on the challenge. Harness the leverage and synergy that comes from working side by side with qualified professionals experienced in solving the problems you're facing. It will be time and money well spent.

It takes a survivor's mindset coupled with data, wisdom, and dogged persistence. I believe you can do it. I sincerely hope this report has given you some useful tools, increased confidence, and a good-spirited nudge toward making some changes. If that is what has happened, I feel I have accomplished what I set out to do here. And, I wish you the best of success in your venture as you face the next decade and century with your newfound rugged outlook. Thank you for your attention and please let me know how I can assist you.



About the Author



With his 15 years of experience creating profit driven organizations, Ren assists his clients with forecasting, establishing employee metrics, creating organizational dashboards, obtaining financing, and executing acquisitions and divestitures.

Ren is both a Certified Public Accountant (CPA) and a Certified Specialist in Management Consulting (CSMC.) He currently serves as President and CEO of Dynamic Advisory Solutions.

After graduating with honors from Oakland University, Ren spent a few years working with privately held businesses in public accounting.

After serving as Chief Financial Officer for a Tier 1 manufacturing company, Ren launched Dynamic Advisory Solutions in 2000. Ren also hosted the award winning Business Reality Network radio program for three years.

Ren has previously served on the Michigan Association of Certified Public Accountants' (MACPA) Ethics Task Force, Detroit Chapter of Entrepreneur's Organization (EO) board of directors, and the Troy Community Foundation's board of directors.

In 2007, Ren was awarded The Michigan Small Business Journalist of the Year Award by the U.S. Small Business Administration.

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