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When the mother of the great warrior Achilles bathed him in the immortal waters of the dreaded River Styx, he became invulnerable. But there was one place where the magical waters did not cover him - the ankle she held him by. This was the only part of his body that an arrow could pierce, and it was to be the cause of his death. We too can be vulnerable. Just when we thought it was safe...here come the sharks - quality, product failure, 60 Minutes on our doorstep, and deadbeat customers.

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DEALING WITH THE PROBLEMS OF FITTING THE PIECES

THE QUALITY CONCEPT: GREAT TOOL, TERRIBLE MASTER

American industry saw quality circles as a solution to overcoming its manufacturing problems.

In its original form, quality reflected its aristocratic roots (quality stock) and was later developed as a marketing buzz word. It conveyed the sign of the best, new, improved, upscale, etc. In a marketing sense, quality meant that we could demand a better price. If we wanted quality, we paid for it. Quality now is the presented, and accepted, norm because who would buy any product that is not quality? Recently, we have seen madness pervade the so-called quality stakes competition, called the Malcom Bridge award, where the Fortune 500 companies try to outdo each other in presenting a "quality" plan for their quality products.

Let's start with quality in Japan. Why did Japan adopt the Deming theory of quality? After the war and through the 1960s, the quality of Japan's products was lacking. In the 1970s, with the advent of electronic stereos and cameras, Japan slowly regained its prestige, although for many years American products were preferred in Asia over Japanese products. This preference still exists in Japan for so-called American luxury goods! Another sidelight, in the 1970s, Japan practiced a double standard in that most products were produced in two forms: domestic and export models—I always bought the domestic version!

When the Japanese applied Deming's theories, it gave immense relief to the "Time and Motion" experts throughout the world. These were the people with stopwatches who ran around factories trying to trim seconds off manufacturing cycles and eliminating staff—the unions loved 'em! (Not!) They were also the bane of my existence in school—I remember suffering through a 2-hour lecture on how to use a stop watch!

There is no doubt that Japan has enjoyed overwhelming success in introducing the concept of quality in a manufacturing sense. This is most evident in the concept of a quality circle applied to the production of goods and services. American industry saw this as a solution to overcoming its manufacturing problems. Clearly, it wasn't. I think we need to step back and take a look at why the quality circle concept has worked much more successfully in Japan than in America to date.

Western philosophy teaches top-down management—planning and direction are diluted progressively down a multitiered structure with implementation left to the worker at the bottom. Contrast this with the Japanese system under which initiatives arise from the lower and middle management ranks of the companies. The right to change, and the right to propose manufacturing improvements, resides with middle management in Japan. This approach encourages considerable initiative on the part of lower management and consequently, unlike in the west, few supervisors feel insecure or threatened by the performance of their junior staff.

Japan then is much more able to accept the concept of a quality circle by which all the workers are responsible for the ultimate quality of their product. This division of responsibility and rewards also tends to decrease counterproductive personal, professional, and interdisciplinary rivalries. In short, particularly with new projects, consensus is reached almost immediately upon adoption. Of course, the price paid is the time it takes to reach consensus before adoption, which is the reverse of the U.S. system. Which system is more effective? There are no right answers to this question. While the Japanese quality circle system is much more effective in terms of cultivating people than America's system, it sometimes lacks the broad vision required of the leader to set a company-wide perspective.

More recently, we have seen the quality concept go full circle, with the development of the concept of quality management. Quality management is often touted as a panacea to overcome the various management problems confronting most major companies. It isn't!

Skeptically, of course, quality management meets the criteria of any good management tool: it generates a lot of paperwork, it allows supervisors to avoid contact with staff and workers, and it encourages management not to focus on the real issues confronting a company. Quality management appeals to the American system since it allows management to practice its top-down philosophy. But, quality management sometimes fails to address the critical need to motivate and reward performance. We can practice an awful lot of quality management without generating any business!

Clearly, under the current wave of mergers and acquisitions, American employees feel less inclined to believe that they have an identity and belong in a company than do their Japanese counterparts. In the midst of downsizing, imagine for a moment a U.S. employee talking about "my company" as we often hear in Japan. Most of the time our employees view their jobs and their occupations as a source of livelihood to support a lifestyle and a family.

We're all familiar with the 5 o'clock whistle and the "on-your-mark, get set, I'm outta here" line at the door at 2 minutes to 5. Is your office a ghost town at 5:01 pm? The message is, "how much time do you want to buy from me because I am only willing to sell you 8 hours a day!"

Quality management does not really address the need for participative management and identity. In fact, I've heard certain contemporaries make jokes about the "lemming" theory of quality management. For those unfamiliar, lemmings are small animals that regularly self-destruct by casting themselves off cliffs.

Quality management certainly has a very valuable place as a tool in today's repertoire of management tools as companies seek to reengineer, or transform, their business systems. However, it is not the panacea some of us would like to believe. It must not be

used to deny some of the key vision, people, and business development problems confronting organizations.

What are some of the real issues? They might begin with product failure!

CRISIS: PRODUCT FAILURE

Sales are plummeting and there's a strange negative attitude toward our product in the market. Profit hopes have been dashed. Salespeople are clamoring for more promotion money and pricing concessions to clean out excess stock. Production people are bracing for cutbacks and layoffs. Financial people want to cut budgets to limit losses and protect the balance sheet. What should we do?

Go into the marketplace and find out what the users have to say.

Quiz Our Customers. Start at the end. Our customers know what is wrong; they can tell us what is going on. Go into the marketplace and find out what the users have to say. Hire a professional market research firm to frame the right questions and design the market samples.

Use focus groups to quiz customers for deeper attitudes that might remain hidden in more structured questioning. Get into the market and send executives and salespeople into the field to get a feel for the market. Compare what they find with the more formal results of the surveys and focus groups.

Find The Problem. Gather the information as it starts trickling in and formulate ideas. Make a first hypothesis and test it against later data. If the research appears headed in a fruitless direction, change its course. If we pick up a scent, follow the trail.

Even if we have a tentative conclusion, we shouldn't act until we are reasonably certain that we know the culprit. Keep testing our theses until we run out of time. Remember, we are trying to figure out whether we are selling a product with a problem:

- Does it have a design flaw and does it not measure up to its planned specifications?
- Is it satisfactorily engineered, but is not being well received because of inadequate marketing efforts?
- Is it well designed and marketed, but is not in tune with current tastes, desires, and needs?
- Does it suffer from some combination of these three?

Respond. Knowing the reason for a sales collapse is essential if we are to develop an adequate response. If there is a future for the product, decide what we are willing to spend to reestablish it and how much time we have to do that. If a product's day in the market is done, kill it fast. This fatal conclusion, unfortunately, seldom is anything but a

last resort. Pride and an excessive need for success in all undertakings can delay management's cutting losses until they are so large that there is no alternative. That is why some product lines tend to become heavy and cumbersome. It takes a crisis to thin them down.

Adjust Production. No matter what the cause of the sales collapse or the planned response, we must adjust output until the problem has been treated. Don't believe the people—still mired in the denial phase—who argue that we can "buy our way" out of the problem with promotion money. It may be that sales will respond temporarily to incentives, but more often those expensive programs just borrow from future sales.

The sooner we balance production with sales, the faster our inventory will drop and cash will be released. Customers know when we are bloated; they will squeeze us on prices until our stock is back in shape.

Revise The Numbers. Now it is vital to step back and take a hard look at the new realities in the numbers. Our projections suffer; a collapse in sales can put our reserves under pressure; our obligations to lenders can become a more critical issue.

Be conservative in financial forecasts. This will force economies on old budgets and even prompt some fresh thinking. A cash crisis could complicate the situation. Let the people know what's coming. Notify lenders and creditors of the revised outlook. Advise both of the company's intentions.

Fix The Problem. If we find that our product design is deficient, the theoretical choices are simple. Redesign it or retire it. Of course, doing the former assumes that the product design people have found a solution and that marketing agrees. Salespeople will have to ensure us that the market still exists, and the financial staff must agree that we can afford the cost of recovery. If given all green lights, launch the product again. Japan's car companies did so after their initial failures and the public bought their product.

If inadequate marketing is the problem, we will have to search for a new approach. It's comforting to know that we still have an attractive product. Its a major challenge, however, to revive a failed marketing effort. A simple message change, of course, can be accomplished with the help of our advertising agency.

Strengthening a distribution system that is too weak or unable to finance and service our product line is another matter. This problem takes years to remedy, unless we go the way of a buyout or a merger with another company in the field.

Our troubles are also great if the market has shifted from our product. Very little can be done to salvage even a good product if customers have lost interest. Our best course is a "profitable retreat" in which we cease production, sell what inventory remains for whatever we can get, and turn our attention to other opportunities. This does not always mean entirely abandoning our position in a market, especially if we were the market

leader. We can just lie low for a while and invest carefully during the downturn if we expect the market to swing back in our direction in the future.

Return. When the timing appears right, we move back into the market with our redesigned product and improved marketing program, win back our customers, and invade our competitors' territory at their weak spots.

When we return, we are committed. Put up the resources needed to do the job. Remember, returning is harder than starting out! We have adversity to overcome; we are saying "forget the past—look at me now." The buying public will be forgiving if the quality is there and if we communicate well. Ask Lee Iacocca.

Don't get carried away by initial success. Increase production slowly. Stay a little bit short. Err on the side of lost sales as a result of short stocks and let demand push up the output. We are coming back; we run lean and protect our prices.

If we come back successfully, we can't be bashful. Proclaim it! Tell the world that we are back and successful. Success is contagious.

Okay, so the product's fine, and we've got plenty of leads, so why aren't we rolling in it?

Unplanned Sales Leads Can Lead to Nowhere

We can do an awful lot of business development without developing any business is a management pearl we constantly need to be reminded of. This wisdom is particularly apropos when small business sets its sights on generating new customers through a sales lead program. In very few cases does this approach result in the anticipated success; more commonly, the outcome is bitter disappointment.

Let's return to our Harvard Business School approach and examine a typical case study of a sales lead program. We'll consider a typical program that failed, why it failed, and what could have been done to make it succeed.

The Setting. SmallBiz, Inc., has been operating for about 10 years. It has a sales staff of 6 to sell its products. In keeping with most small businesses, sales aren't what they should be (of course, they never are!). SmallBiz's president calls an urgent meeting with his sales and marketing manager on Monday morning to consider how the company could drum up some new business. The sales manager recommends increased publicity to generate new sales leads that his sales staff can follow up on.

Monday afternoon, SmallBiz calls in the HotShot Advertising Agency and gives HotShot one simple objective: create an ad program to bring in new inquiries, as many as possible, since time is of the essence. By Friday, HotShot has worked up the ads, which the president quickly approves. The agency then books space in numerous publications at typical costs of about $40,000. The publications go to press, SmallBiz's

ads appear, and, low and behold, they receive over 150 reader card responses in their mail 2 weeks later.

The president is ecstatic! The sales manager collects the sales leads, sorts them by territory, and gives them to the sales staff with specific follow-up instructions. The sales staff run their legs off. At the end of the campaign, much to management's surprise, not one inquiry has been converted into a sale. Reality rears its ugly head. SmallBiz realizes that the $40,000 that HotShot spent on the sales lead campaign has flown the coop.

What's the result? SmallBiz's president complains, "the sales lead approach just doesn't work, and, worse, our sales staff must be incompetent." What went wrong?

What Targets. The first common mistake that SmallBiz made was not knowing its market. A little advance homework would have helped SmallBiz target their market, allowing HotShot to make qualified judgments in selecting the type of ads and matching publications. Also, HotShot could have made decisions on whether to place some ads nationally or regionally.

What should SmallBiz have done? SmallBiz should have segregated its client list by industry groups and income earned. This information would have provided some tools with which to paint a picture of its markets and to build its promotion campaign. For example, let's suppose that SmallBiz finds that 750 clients span 30 industry groups, 80 percent of its business comes from 17 percent of its clients, and the largest income producing group in its local territory contains 14 clients.

Segregate the client list by industry groups and income earned.

A simple prospecting trip through the Yellow Pages would reveal that only 20 companies in the territory are in that industry group: that's a 70-percent market share, not a good prospective market. SmallBiz knows the remaining 6 companies and they probably know why they're not doing business with SmallBiz. A check through the other industry groupings tells a different story. One industry category, for example, contains 90 percent of the total potential customers, but generates only 5 percent of their total sales!

Hidden Potential. SmallBiz identifies a category that has only 3 customers, but market research confirms a total of 45 companies in that category—an untapped market? By progressively examining each of its 30 industry categories, SmallBiz can evaluate the opportunity for each market segment. To prioritize each segment, SmallBiz must ask itself the following questions. What is the total market for each segment? What is our current market share? How profitable is that segment for us? What is our potential for getting business from that segment? Do we want to spend the time and effort necessary to get business from that segment?

Armed with this knowledge, HotShot could have intelligently selected the right publications to advertise in and rejected those whose readership profiles didn't match the SmallBiz target markets.

Buying Influences. SmallBiz's second mistake was in not identifying the decision makers. If SmallBiz had some understanding of who the decision makers were for their products, they could tailor their ads to focus on the buying issues. In any company, there are the decision makers and the individuals around the decision makers who can influence them. It is important that SmallBiz get its message across to as many members of these decision-making groups as possible. Had SmallBiz studied the decision makers within its industry categories and between categories, it would have noticed that the decision makers' corporate positions vary among the industries represented.

By using this "buying influence" approach, SmallBiz could decide whether or not it should convey its message to different groups of decision makers. In turn, HotShot could have guaranteed SmallBiz results by developing individualized messages relevant to each segment and recommended which segments required response advertising and which segments required direct mail packages.

Sales Experience. Regrettably, most sales lead programs are developed by people who have never had to sell anything. Very often, the president and the sales manager are strong in administrative skills, but lack field experience. This problem can be further compounded if the ad agency account representative has no relevant sales experience either. SmallBiz made a classic mistake. That Monday morning when the fateful decision was made to "do something," SmallBiz neglected to ask the most important people of all—the sales staff. These are the people who are on the firing line daily, who are in the field interacting with the buying influence people.

With the proper questions from SmallBiz and HotShot, the sales staff could have been probed for the right answers. Overall, a sales staff generally takes most of the heat for lack of performance in most businesses, particularly when business is bad. Of course, when business is good, the president usually gets the praise!

Staff Cooperation. Any sales lead program can be torpedoed by the sales staff if they don't fully participate. The sales staff at SmallBiz were peeved by HotShot's approach and the leads generated by the promotion because there were far too many to handle at once. Many were just general inquiries, because the reader card responses didn't distinguish between hot prospects and lukewarm ones. HotShot had drafted a single theme ad to carry the message for all market categories and some were responding for products that SmallBiz couldn't satisfy anyway. The result: the sales staff felt their time would have been far better spent in doing their own prospecting instead of relying on the generated leads. If they don't like HotShot's promotion material, they're not going to be strongly motivated to go out and sell. If they feel the target markets are wrong or the leads are not qualified, they will grumble and, only under duress, follow up on leads.

SmallBiz made another mistake by not deciding in advance what type of leads would require a personal follow-up and how they would handle leads they could not call on. Were they going to telephone or arrange a separate telemarketing program? Were they going to send a form letter, or was it going to be a personal letter? Was it going to contain

sales information? Was it going to contain a reply card? How were the customers supposed to do business with them?

SmallBiz also forgot to tell Freda. Freda, of course, is the reliable receptionist who answers the phone and guards the door to the kingdom. All telephone callers go through Freda in order to do business. Because Freda didn't know about the ad campaign, a lot of inquiries were incorrectly directed to different departments. In other cases, when Freda wasn't available and other staff members took the calls, inquirers were often treated in an off-hand manner because the staff wasn't aware that a sales campaign was underway.

If SmallBiz really wanted to develop additional business, it should have done its homework on its clients, consulted its sales staff, prioritized its markets, and identified those segments that could be developed. Freda and others at the front desk could have been primed to charm the socks off the inquirers. The entire company would have reaped the tangible rewards of a highly motivated sales staff, with growth ensured through an expanding customer base.

So the product's fine, sales leads are targeted, and now we're faced with how to take pennies out of the production costs. Do we make or buy?

PITFALLS LURK IN SIMPLE "MAKE OR BUY" ISSUE

Typically, make-or-buy decisions are triggered by the need to reduce production costs in mature products or the need to tool up to produce a new product.

In the case of the mature product, the continuing encroachment of the world economy on local markets forces companies to consider either subcontracted local manufacture or worse, moving operations off-shore to gain access to cheaper labor. A company faced with manufacturing a new product or introducing a new service faces an even more basic decision—whether to "sell or license" before the make-or-buy decision.

Digressing for a moment to the sell-or-license decision, licensing sales and manufacturing rights to a new product is often preferred:

- When an existing business has no effective sales and marketing organization
- When cash may be available, but the green stuff is better spent in supporting current business or R&D
- When the new markets are not penetrable without a "muscular" licensee or distributor
- When the new product requires cross-fertilization to become a salable product

- When the arrangement will ensure a first-to-market situation to preempt competition

- When the business area is not of current interest to management

Address whether the contractor can make our product at a substantially lower price than we can in house.

Assuming the decision is to sell either the new or mature product, management must consider whether to tax the existing resources and facilities by producing the product in house, or subcontracting the manufacture of the new product or service. What factors should management consider in a make-or-buy decision?

We can look at this decision from both the technical and financial viewpoints. Given our preoccupation with the bottom line, let us consider the question from the financial viewpoint first. What is the financial risk from outsourcing production from a contractor? We must address whether the contractor can, in fact, make our product at a substantially lower price than we can in house and help us protect profit margin. Can the subcontractor keep production prices down over a period of time? In other words, can the subcontractor maintain a stable price so that we can establish the product in the market without having to fight a rear guard action on costs? Then, too, what steps can we take to preserve pricing policies by protecting the "quality" of our product—specifications and inspections? How can we protect the integrity and the credibility of our company by trusting our name to a product made by a third party? Could our entire product line be tainted by one rotten apple?

We must be alert for a few hidden traps—management time and continuity. Perhaps we elected to buy product because we anticipated that to do so could free up a key executive of our company. If that executive is continuing to interface on a regular basis with our supplier, perhaps we're not really getting value for money. Also, there is the possibility that our contractor may indeed hire our staff away.

Finally, the question of continuity both in regard to making deliveries on time and more specifically as to our plan of action in case of a catastrophe at our contractor's facility should be considered. Can a simple fire put us both out of business at the same time? Naturally, we need to contrast this possibility against the financial rewards of this approach.

Clearly, when we are attempting to establish a new product in the market, we can defer the cost of making investments in both equipment, facilities, and staff until that market is established and can be sustained. Minimizing the additional labor burden as we ride the business cycle can certainly protect our cash. We can protect our cash flow by incorporating our production cost as an operating factor in our sales price to our customers in lieu of having to capitalize and depreciate those costs. Furthermore, we gain the hidden reward of access to potentially greater experienced management than we currently have in our own company.

The technical side also contains rewards and risks. On the reward side, clearly the company can gain access to new technologies and new manufacturing methods at a much faster rate than it could possibly incorporate or adopt them into our company. We reduce the risk of (not again!) running afoul of the dreaded not-invented-here syndrome that may occur when we attempt to introduce new techniques into our company. Let's not forget the potential contribution to employee morale both by cross-fertilization through an interchange of ideas with a new company, and also by access to learning new skills and developing additional talents as a result of the exposure to new technology. We must contrast these rewards against the technical risk.

In a similar manner, we face the loss of key people to the subcontractor as a result of this cross-fertilization. Losing key people can expose us to a much greater risk—disclosing trade secrets, technology, and possibly even establishing a future competitor. Someone once said that employee exchanges were the greatest form of free technology transfer. Is it better to have a patent or a padlock on our trade secrets?

There is a more insidious risk of failing to document the key elements of the new product or improvements in the manufacturing process as its evolution takes place. We need to be careful to ensure that we retain access and, more importantly, document this essential information in case we need to take our business elsewhere in the future. Reasonable and measurable performance goals must be set to ensure that the specifications for our product are met by the subcontractor. If we put a third party in business, we need to ensure that we have rights to future improvements. It is far better to negotiate how we will play the game before we start the business with a third party, but, if in doubt, retain some good competent legal advice.

To ensure success in a make-or-buy decision, it is important that our management plan includes careful planning and close monitoring, both from the technical and the financial viewpoints.

PLAN A CREDIT POLICY TO AVOID PROBLEMS LATER

No sale, no matter how large, is worth making if we cannot collect.

Credit is the force that propels goods and services through the distribution pipeline to the final user. While consumer markets thrive on liberal credit to maximize market penetration, liberal credit can be very expensive to small business if it is not properly managed. What should our credit policies be? Should we have a written or unwritten policy?

While it is difficult to formulate a general credit policy to suit every business, there are certain simple and common sense rules that should encompass any policy.

First, it should be fundamental that no sale, no matter how large, is worth making if we cannot collect. Never, never delegate credit responsibility to the sales department; the risks are just too great. Sales people often instinctively side with the customer, particularly when commissions are involved.

Second, make it very clear that all credit sales require the approval of the credit manager. Only the company president can overrule the credit manager. A written policy has an advantage that it is more easily explained to both our employees and our customers.

Third, never make delivery on a significant order for a product or service until credit for the amount of the proposed sale has been cleared. When companies get into trouble, they often look for new suppliers to replace suppliers they may have lost because of poor payment.

Fourth, obtain a minimum of three trade credit references and check them out thoroughly. Do not be fooled by credit ratings; they should not replace first-hand credit information. Credit checking procedures should be quick and efficient so as not to interfere with the prompt shipment of orders and resultant cash flow.

In checking credit references, look in our company ledger files first. Do we have past or current information on this customer? We may want to consider the following:

- How much will this new order increase the customer's unpaid balance and the total receivables?
- What previous high credit has been established with our company or any supplier? What about current accounts?
- How long has the customer been in business and, most importantly, can their management be trusted? All businesses suffer temporary set backs. How the customer deals with these setbacks is often the best measure of all. If their management can be trusted, we will eventually get paid.

- Is the order covered by our current policy or do special arrangements have to be made?

- Should we spot check the results of the trade reference services we used? Regrettably, some unscrupulous companies have been known to set up phony trade references.

Bank references can also be helpful, but must not be a substitute for trade references. We may share the same customer as the bank, making it easy for even the most scrupulous banker's opinion of the borrower to be colored.

We should consider the following when preparing our own company's credit policy:

- *The nature, size, and overall objectives of our business.* If we enjoy a high profit margin and a stable overall economy, a liberal credit policy will permit a wide margin of acceptable risk. Recessions tend to quickly change the rules of the game.

- *Our channels of distribution.* Be careful to allow distributors and dealers sufficient time to collect from their customers so as not to burden their cash flow. In direct sales, require that purchase orders be accompanied by part or all of the payment until credit history is established with new customers.

- *The selling price for our product or service.* Industrial products involving large cash outlays may require down payments and continuing progress payments in the various stages of manufacture. Do we need a good faith up-front payment from a new customer before starting our services? Can we reasonably charge a premium for a superior product, better delivery, or better service?

- *The expectations of our customers.* What accommodations have we previously made? How do our competitors arrange their terms? What expectations have our sales people created in securing the sale? What other credit alternatives are available?

- *Preset credit limits.* To save valuable time, establish a credit line for each customer. Base this on the customer's requirements and their ability to pay. Will we offer any cash or trade discounts?

- *Classes of customers.* Place the customers into classes equivalent to good, fair, and weak. Weak accounts are still acceptable credit risks, but must be closely monitored to prevent potential problems from developing. Review the ratings at regular intervals.

- *Rules for dealing with delinquent customers.* Save emotional problems by defining follow up and collection procedures before trying to collect overdue accounts.

No matter what credit policy we set, we must monitor our accounts receivable collection. Whether we use ledger cards, a computer, or an outside accounting service, information must be posted on our deliveries and payments as soon as possible. How else can we ensure our customer has not exceeded preset credit limits?

If our business has computerized the order entry and accounts receivables, it is a simple option to preset limits into the computer for each customer. This eliminates the need for reviewing each and every order. Past due balances can also be programmed for regular review.

The accountant has certain "tools" to give us snapshots of our credit picture. The "average number of days sales" is a typical tool to use and is defined as the ratio of the average accounts receivable balance to the total credit sales per 360 day year. Other useful measures include the "ratio of credit to total sales" and the "ratio of bad debt to credit sales." These latter ratios reflect the change in the company's risk level over a period of time. The bad debt ratio is a broad indicator of the company's effectiveness in approving and collecting credit sales.

"Aging schedules" for accounts receivable are becoming more widely used through computers. They evaluate the liquidity of accounts receivable at a given time, typically monthly. When compared on current, 30, 60, and 90 day intervals, aging schedules can sound alarm bells before credit problems get out of control.

Do not put off defining a collection and follow-up procedure to ensure the timely collection of accounts receivable and the processing of delinquent accounts. Most current account problems involve customer disputes over the quality or quantity of goods and services received, invoiced amounts, and errors made by the customer in computing trade discounts. Telephone calls are usually more effective than letters for correcting these problems.

Managing credit in the hope of stimulating sales and meeting the competition is key to protecting our cash flow lifeline.

Delinquent accounts must be identified as quickly as possible and collection procedures commenced after reasonable and tactful approaches have been exhausted. Trade publications can outline the options open to us in collecting overdue accounts. Only we can decide if the collection cost is indeed warranted. Remember, early credit checks can often avoid later problems.

Managing credit in the hope of stimulating sales and meeting the competition is key to protecting our cash flow lifeline. Only through careful and regular management can we realistically hope to balance risk and reward in our changing business climate.

So, we've got over the product, sales leads, sales campaign hurdles, but how can we keep our most valuable resource—our people.

KEEPING 'EM DOWN ON THE FARM

A lot of quality programs get lost in paperwork and there's little time left for actual work.

Most of us have written an annual business plan—you know the one that's supposed to be dog-eared from continued use. Each time we pick it up, we remember the countless hours of preparation and revision, the colorful slide pitches outlining each department's vision, the elaborate organizational charts, and the performance standards and expectations that resulted in *the plan*. Perhaps we even introduced a Quality Program as part of the plan to encourage participative management.

With all this planning, however, we're just not feeling right, particularly if we've recently lost some key employees. Quality applied to management theory is not a panacea for solving acute problems. Hindsight tells us that our plan may have lacked substance, the glue that holds the organization together. If our organization is like most, we spend plenty of time analyzing and discussing WYOSBD management (what your organization should be doing). Unfortunately, we all spend less time analyzing WOEHTD management (what our employees have to do)! The result is that there is often a mismatch between what we would like our organizations to do and how our people actually work. Sometimes the rubber doesn't meet the road.

Here's a quick test to find out if we have fallen into the trap of WYOSBD management. Gather all our key people together and ask them individually and collectively what they will be doing differently as a result of the plan, the vision, the quality program, the organizational changes, and the new performance standards. In most cases, we'll be met by silence, or painfully slow answers that include "more paperwork" and "less time for my real job." A lot of quality programs get lost in paperwork and there's little time left for actual work. If we are guilty, our planning has become a paper tiger. No wonder they want to leave the farm.

If we want to keep our good people, we have to do better than paying lip service to participating management—we have to practice WOEHTD management, which is a close relative of MBWA (management by walking around). We've got to get to know our people (scary), learn their interests, recognize their efforts, and match their skills and talents to the company. Stated otherwise, how do we get 'em off clock watching and just selling us 8 hours of their time? Here are a few suggestions.

Reward and recognize effort as well as success. Handing out liberal amounts of praise is perhaps the first important step in keeping people. Sweeten the pot with various and simple unexpected bonuses from time to time—cash, game tickets, awards, extra responsibility. After hearing the magic of their name, people like to hear that their efforts and successes are noticed and appreciated. Compliments reinforce good work and almost

always guarantee repeat and continuing performance. Better yet, compliments establish good communication, which allows us to carry out the next suggestion.

Know the people and learn their interests. We want to keep them as satisfied with the job as possible. The easy way to do that is to marry their talents and interests with the functions of the job as much as possible. Learn about special interests, hobbies, and special courses. This is best accomplished on neutral turf such as chance meetings on the shop floor or brief conversations in hallways or parking lots. We can't make the mistake of only talking shop when we meet people; bantering establishes good communication.

Watch for signs that an employee needs a change. People with plenty of spare time are a definite clue to a round peg in the square hole. Their current job may not be providing sufficient challenge for their talents or, worse, they may have already crashed and burned out with assignments beyond their capabilities. In either case, they're bored and obviously need to be reassigned to tasks that provide the right mix of interest and challenge. In the process, we will be matching the people's personal skills and interests to the benefit of the company.

Set personal development programs. People want to know that they have a future with the company—that personal career and skills development is possible as part of that future. Talented employees will contribute even more if we ensure that they learn the skills essential to performing the new tasks. This could be a simple software class, a marketing seminar, or personal mentoring by a senior staffer. Stress to employees that personal growth is part and parcel of the company and its training plan. We all like to know that we are really going in the same direction. This is a twofer—we not only get to keep our better people longer (yes, some will outgrow us), but we will also find our reputation attracting better talent.

Set growth goals as part of the review process. Money is only part of the motivation equation. Money doesn't solve stress and frustration problems—opportunity and challenge do. Formalize the commitment to personal growth as part of the performance review. In fact, an ideal approach to mutual development is to adopt a 70-20-10 approach: 70 percent of effort to on-the-job training, 20 percent from seminar and workshop experiences, and 10 percent from personal mentoring. Help them to plan for their personal growth and watch stars bloom. Every organization has a lot of talent hidden under the paperwork. Finding it and developing it should be part of the successful manager's charter.

To grow the organization, develop the people. Challenging our people's creativity will grow the organization beyond our expectations. Stifling creativity will cause our people to lose heart and leave the farm for greener pastures.

What's guaranteed to strike more fear in our stomach than anything else—*60 Minutes* at our front door!

SURVIVING A MEDIA BLITZ—WITHOUT GETTING AN ULCER

What's guaranteed to strike more fear into the heart of a small business than an IRS field audit? Or, what's only slightly less painful than being subjected to the Spanish inquisition? If you guessed it—the glare of the spotlights and cameras from *60 Minutes* and milling crowds of reporters, in short, a media crisis—go to the top of the class.

The national press won't wait for us to collect our thoughts and issue carefully considered reports.

They come out of nowhere and suddenly thrust our company into the spotlight. Panic grips our brain since they seem to know what we've done, but we don't! Why have we suddenly become their target? After all, we're not a Toshiba, a Tylenol, or a Bill Clinton. Our lawyer advises us to say nothing, deny everything. Bophal and Union Carbide race through our mind. We're ruined! Have we created an environmental problem or caused an accident? Are our methods of doing business under the microscope?

Whatever the situation, the tone is hostile. The company is on the defensive. Phones ring off the hook at all hours and reporters demand interviews and more information. The national press—*New York Times*, *Wall Street Journal*, and *Washington Post*—along with the television networks won't wait for us to collect our thoughts and issue carefully considered reports. They'll go with what they have, even if it is only part of the story and part fiction at that. How should we react?

Let's assume we are like most businesses and don't have a crisis management program. The day of "no comment" is past. With the communication means available to today's media, those words are interpreted as a confession of guilt. Avoid them.

Time is the critical factor. Our first act must be to appoint ourselves the crisis manager, the person who is both the major absorber of information and dispenser of instructions. We let everybody inside the organization know that we are operating in this role. Don't delegate this task. One route in and one route out is key.

Tell the staff we want to know everything possible as soon as possible. Become accessible to anyone with useful information. Find the trouble spot, go there, and stay there as long as we need to grasp the implications of what has happened. Set up a command post, open lines of communication, and monitor the media for the latest developments. Above all, get on top of the situation and be in a position to seize control quickly.

Track down and identify the facts that caused the problem. Find out who is, or was, involved with the situation. Identify the "influentials"—those (usually) small groups who stand to gain from damaging the firm or those who have much to lose and learn their motivations. Call on them for necessary assistance as the response gets under way. Do a quick and dirty telephone sampling to assess the intensity of feeling among those affected.

Knowledge is power in this situation. We may be surprised to find that the public's interest is a lot less than the media attention would suggest—or a lot more. But, we must know which before we act.

Be objective. Since we can't possibly see ourselves the way others see us, bring in a trusted outsider to provide some perspective. The choice may be a professional public relations firm or simply a wise old head whose judgment we respect. Keep this person, or people, close at hand throughout the crisis period. We will get the outside view of our company that we need—and something of a conscience.

No matter what dire event has taken place, be prepared to tell "our story." We need to reconstruct the facts and interpret them from our point of view. Be sure to give the background information, revealing important, but perhaps overlooked, prior events that may help explain the current conditions. Above all, be honest, factual, concerned, and willing to accept whatever blame rightfully attaches to the company. Remember IRANSCAM; fabricate and they'll bury us.

Johnson & Johnson's Tylenol case should teach us that whenever the public at large is involved, the most important thing is to protect our company's credibility. With credibility, we can recover our reputation while protecting both our product and our bottom line. Without it, we are in for lasting and permanent damage.

Don't overreact to legal concerns, but probe the lawyers about where the weaknesses are. Analyze the exposure to litigation. Learn what the limits are, what can be said and done, and what words or acts should be carefully avoided. Most media crises are lost by the overzealous protection of legal positions. This stance produces the corporate stonewall, which makes even a sincere, concerned management look ignorant, indifferent, and probably guilty.

Communicate. Make contact with all important segments of the market and customers. We should tell them what we can. Allay their fears, if we can, but stay in touch. Encourage them to phone if they are worried or have useful information to pass on. We don't just bury our heads in the sand.

If we are uncomfortable in speaking directly to the press and public, we should pick a spokesperson: a single spokesperson. We must avoid the contradictions that will inevitably creep in if there are too many voices. Find someone who can tell the story convincingly, and reiterate that this is the person who speaks for the company.

Being the spokesperson is no easy task. A cool, informed, unflappable person is required. It will help if the person looks the part as well. On most occasions, CEO's are the logical choice, but on occasion they may not be suited to the task. In this case, a better choice would probably be a senior executive who has been trained to deal with the media, knows the subject matter thoroughly, and can articulate the company's position. Whoever it is, the spokesperson must be tough-minded as well as congenial. Media people can always smell a pushover.

Be accommodating to the media people. Put aside natural biases until it's over. Develop rapport with the reporters assigned to the story. Keep repeating the story until it sinks in. Encourage the media to bring information for comment, since reporters often dig up news faster and more accurately than any other people available.

Be assertive and don't be provoked. Bad manners are never acceptable and are not condoned on the national media. Keep cool even if abused by ill-mannered reporters. When ambushed by the surprise interview, which is designed to rattle us, we can make our distaste clear by cutting short the meeting. Remember, maintain control. We control the information to be dispensed, and the media people want what we have. Stay closer to the journalists who will report our position fairly. Keep the dogs at bay.

Take a leaf from the "great communicator": make the pitch to the public. Start early and repeat the story as often as necessary to be sure it is being heard. Be consistent; don't be diverted by speculation. If the key information necessary to reach final conclusions is lacking, say so. Then, quickly add that the staff is working on getting the facts out. Do not accept the Ted Koppel approach, the hypothetical case. Remember a premature conclusion that is later refuted by cold, hard facts is hard to live down.

Keep the story current and improve and modify as we learn more. Fess up if unfavorable developments force us to modify it, but carefully explain why. No one blames a company that appears to be keeping an open mind and responding readily to new information.

The final word. To resolve a media crisis, time is of the essence. Even if we are not at fault, letting too much time elapse between the time our problem gets media attention and its resolution will damage the company's reputation, perhaps irreparably. Get the facts. Establish the information pipeline and name the spokesperson. Conclude the matter quickly—before the public and the customers become convinced of the company's guilt and negative publicity buries it.