



TOOLKIT 31 – INSPECT DON'T EXPECT IN ORDER TO BOOST YOUR PROFITS

- ❖ **Discover what's really happening in your business.**
- ❖ **Keep your business standards up to scratch.**
- ❖ **Stop haemorrhaging profits.**

As the manager of a business unit or department you will appreciate how important it is to keep abreast of the things that are happening day to day in your business. The business grows and then it becomes a more difficult problem to stay in touch due to size and complexity.

Growth demands that the organisation structure be developed and people are re-organised . It becomes much less easy to keep track of what makes your business unit really tick and what's happening at the sharp end.

STORY – SIMON KEATS, NORTH STAFFS CARAVANS

Simon attended a workshop on 'Inspect don't expect' and returned to his £4m caravan retail business to boost his profits.

'I spent a day in the accounts department working as an accounts clerk alongside the team. I could not believe how generous people were with our money. We were paying invoices without checking and we obviously had some very cosy favourite supplier relationships. I could not believe it, we were throwing cash out of the window. We tightened up and saved over £100k in 6 months.'

I learnt the technique from Sir Anthony Cleaver who was Chairman of six companies in 1996. I asked him how he managed to control six businesses and he told me, he focused on three things:

1. Set clear objectives for the business and the top people.
2. Ensure the incentive scheme supports the objective.
3. Inspect don't expect. Go see for yourself what's really happening in your business at the sharp end.

STEP 1 Simon Keats' example of spending a day with his accounts team is one form of inspect don't expect.

- You could also choose to:
 - Spend a day in the field with a salesperson.
 - Sit in on a management meeting you don't normally.
 - Work on the production line for a day.
- There are many places to look, be warned, take Prozac before you do!
- But shouldn't I trust my people, you may be thinking ... of course you should, but this should not prevent you from inspecting what's really happening once in a while. It's not what you do it's the way that you do it.

TIP: Don't confuse delegating and trust with keeping your finger on the pulse. Some Managers believe that they should delegate and blindly trust people all the time. This is naïve in my experience.

STEP 2 Initiate investigations.

- Whilst step 1 is about immersing yourself in parts of your business you don't normally. Step 2 is about personally digging deep into your business to find out what's really going on. Where should you look?
- Trust your own intuition. Where do you think that things might not be happening, as they should be?

Example

One CEO noticed that the number of credit notes being issued was suddenly increasing. He wondered why? On further investigation

he found that his business was issuing three times the number of credit notes in 2000 as it did in 1999. This was due to a change of warehouse management and a reduction in the checking of deliveries sent to customers.

- Follow the money. Where are your biggest costs?

Example

One software company was spending 60% of their costs on subcontractors. Investigating subcontract management revealed some very meaty problems to resolve.

- Carry out a Pareto 80:20 on your costs. Where are the bulk of your costs?

TIP: Get one of your management accounts to act as your helper for a while. Ask them to dig deep in critical cost areas and find out what's really happening with costs.

- Where is your business most at risk? How are your people managing risk?

Example

One construction industry CEO inspected the use of his company's risk management system. They had a policy and a process but it turned out that only 40% of managers actually used it. This put 60% of contracts at legal risk.

- Check company supplier relationships. Is anybody benefiting internally from trips to the races or other forms of 'entertainment' without permission?
- Check which products or customers make you money, you might be surprised. Very often one or two products or customers produce 80% of the profits.

Example

One consultancy business found that over 10 years every time they worked for a housing association they lost 2% on the contract. Yet, when they worked with local authorities they made 2% profit. It was not until this analysis was completed that they changed their customer focus.

Q. Where do you really make and lose money?

- The key to this step is to expect nothing. Go looking in any areas you feel may hold the opportunity to cut costs, change practices or people spending your money like confetti. As one CEO put it when he found some major cost discrepancies 'They have had a lot of fun playing at the casino with our chips, that's finished now.'

STEP 3 Improve the costing/control systems

- Very often one of the conclusions from steps 1 and 2 in this toolkit is the recognition that the business really does need to upgrade its costing or control systems.

Example

One Housing company's client's FD was asked to upgrade the costing system. Somehow he never quite got round to it. We never smelt a rat until we inspected some of the pricing of the executive houses; they were incorrect by a big margin. It transpired that the FD was moving money around on contracts to create a false profit picture. This was not strictly illegal but it did not allow the business to make proper future strategy decisions.

Once an effective costing system was installed we discovered that the company was only making a profit on three home types and losing significant amounts on six others.

- A key stake in the ground for all businesses is an effective, accurate and reliable costing system. (I know everybody knows this but you would be amazed how many costing systems are all over the place.)

STEP 4 Visit some key customers.

- Visit some key customers. Take them to lunch and ask them for some honest, direct, straight feedback. How are we really doing? What can we improve? They may tell you things about your business that you had no idea about. That's why you are talking to them.

STEP 5 Check your business systems and routines.

- Sample your systems and routines particularly those that you don't normally get to see:
 - A selection of appraisal reports
 - Copies of management minutes
 - Sales reports

- Market forecasts
- Your sales presentations to key customers
- Project reports

You don't need to become a paranoid interfering boss, but you should take the pulse occasionally of what's happening in your business in areas you don't normally get to see.

- Clearly whilst you are inspecting you should be asking probing questions.

Example

- 'Give me an example.'
- 'Talk me through that process very slowly step by step...'
- 'Let's G.T.F on that one' (get the facts).
- 'Let's dig deeper here ...'

TIP: Be persistent if you smell a rat. Ask for a detailed report or more information. Don't be fobbed off. My regrets are not about upsetting people but occasionally not digging deeper when my intuition told me something was not quite right.

TROUBLESHOOTER

POTENTIAL PROBLEMS

SUGGESTED REMEDIES

Your people accuse you of interfering and not trusting them.

Explain that you are interested in learning about every aspect of the business. Confirm your trust in them.

People 'hide' information or it's not readily available.

Dig deeper, if you meet resistance then you are probably on to something.

Some things need deep analysis, which you don't have the time to undertake.

If it's important enough then second somebody to do the legwork on your behalf.

FOCUS: Department

Areas Cost: Income: Risk: Compliance: Administration: Supplier: Customer:	Findings
Internal Improvements to be made	Short term Medium Term Long term
Visits to key customers How are we really doing? What can we improve?	Findings
Check of business systems and routines A selection of appraisal reports Copies of management minutes Sales reports Market forecasts Your sales presentations to key customers Project reports	Findings