2013 NH Small Business Development Center’s Guide to:

UNLOCKING THE SECRETS

OF BUSINESS SUCCESS

PAUL COLLEGE
Peter T. Paul College of Business and Economics

UNIVERSITY of NEW HAMPSHIRE

Public Service of New Hampshire
A Northeast Utilities Company

NEW HAMPSHIRE SBDC
Small Business Development Center
I will consider myself a success if: “I am able to pay all of my bills, pay myself a fair salary, and have enough profit to establish some savings to cover slower months and to allow reinvestment in the business.”  
-Business Owner

Quite often I am asked the question “what prompts a business to come to the NH SBDC for assistance – what is that moment that an entrepreneur realizes or even admits to themselves “I need help!”.

My response is usually – “money” as that seems to be the driving factor that prompts the phone call to an SBDC business advisor for help. However there are other callers who state “I want to be profitable” and we say even better, as SBDC is prepared to help you with business planning in a variety of ways! However you now ask: just what are the characteristics of profitable companies?

This year, with the help of UNH’s Paul College the NH SBDC decided to tackle that question and take a look at just what makes a business profitable – what are common characteristics shared by NH entrepreneurs that helped their firms realize profits and sustain themselves during economic downturns. Once we identify these common attributes it is our plan to develop programs to better assist NH firms in attaining profitability and success.

We want to thank the all the NH businesses who responded to this survey and invite all Paul College and SBDC partners to join with us as we tailor programs and services to meet the needs of NH businesses in attaining profitability and success.

Mary Collins is state director of the NH Small Business Development Center, a partnership with the U.S. SBA, the NH Department of Resources and Economic Development, the University of NH and the private sector.

Daniel Innis is dean of the Peter T. Paul College of Business and Economics at the University of NH.

Welcome from the NH SBDC

BY MARY COLLINS AND DAN INNIS

We conducted the survey in early 2013 through the UNH Survey Center and the response rate was overwhelming - 27 percent of businesses contacted statewide responded! Not only did NH companies take time to respond to the survey questions but they also provided personal feedback describing best practices, frustrations and difficult choices made as they grew their businesses and sought profitability.

Our 2013 supplement - Unlocking the Secrets of Business Success shares our findings with all of you! Small businesses report that good customer service and product/service diversification were key variables in helping them survive the great recession. On the other hand they think that the state of the economy, the amount of debt they carried and competition from large corporations challenged their company’s survival during this time period. These profitable companies report larger cash reserves, greater rates of sales growth, and strong cash management and customer service practices over the less profitable counterparts.

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Customer Service Drives Profits

BY DANIEL E. INNIS, DEAN OF THE PETER T. PAUL COLLEGE OF BUSINESS AND ECONOMICS

Just how important is customer service to business success and profitability? A recent survey of businesses conducted by the University of NH Survey Center and the NH Small Business Development Center found that customer service is a key contributor to business profits.

As a business owner, I see every day how customer service makes a big difference in client experience and loyalty. At my business, the Ale House Inn, we make it a point to offer great customer service and a personal experience. With fewer amenities than the big hotels and with limited pricing power, the Ale House Inn must be competitive on price and offer something that cannot be easily matched by our competitors. And that is one of the key benefits to great customer service: it is difficult for competitors to match. Customer service strengthens relationships and reduces the likelihood your customers will seek other alternatives.

Service can be as important as the product itself, and there is no doubt that strong service supports the bottom line. It impacts profitability, customer loyalty, and market share. There are several points to keep in mind when it comes to customer service:

• Recognize and emphasize the importance of customer service to the overall goals (retention of current customers, recruitment of new customers, and building market share.)

• Understand the service attributes your customers view as important and focus on them.

• Use customer service as an element of strategy to help the company gain a differential advantage in the marketplace.

To compete and succeed, companies must think about customer service and incorporate it into their marketing strategy. Done properly, the impact of strong customer service on business success is significant and enduring. It positions your company for lasting success through stronger relationship and great customer loyalty.
**Unlocking the Secrets of Small Business Success**

Between February 12 and March 5, 2013, the University of NH Survey Center conducted an online survey of 403 NH businesses for the NH SBDC and the Paul College. The survey examined the factors that helped or hurt NH small businesses between 2010 and 2012. Here is a sampling of the survey’s findings:

**Business Respondents Aspire To:**

- **Add 5 or more Full Time Employees**
- **Add 1 to 4 Full Time Employees**
- **Maintain or reduce Full Time Employees**

**How Profits are Affected Based on Specific Factors**

- Greatly Hurt Profits
- Greatly Helped Profits

Among respondents who say that strength of customer service has greatly helped profits, 56% report a profit.
Among respondents who say that **effectiveness of cash flow management** has helped profits, **67%** report a profit.
Managing Cash Flow

BY KENNETH PETERSON, PRESIDENT OF NEXT LEVEL NOW

There are two key tools available to help with cash flow management. These tools will allow you to manage your cash (or lack thereof), build up your reserves and increase profitability.

CASH PROJECTION WORKSHEET

The worksheet above shows the expected cash receipts and cash disbursements for the daily running of the business. It shows what day payroll is hitting, when you are paying vendors, how much cash you are expecting in on a given day, and the amount of your line of credit.

1. Down the left side of the spreadsheet are cash sources and a detailed listing of regular cash disbursements, such as payroll and vendor payments.

2. Across the top of the spreadsheet are the days. The expected cash receipts and the payments out are inputted in the appropriate boxes.

3. Each daily ending cash balance at the bottom of the sheet becomes the following day’s beginning cash balance at the top so you can look out 30 to 45 days for problem areas and move payments around when you need to. This tool should be updated every day with actual cash receipts and cash disbursements being carried forward. This can be changed to a weekly cash projection if the cash situation is stable. Though simple, this system is highly effective. Find an excel template by going to the Resource Library at www.nhsbdc.org and clicking on Financing Your Business.

ROLLING 18-MONTH FINANCIAL PROJECTIONS

Despite being the best tool for managing cash, it is one of the least used by businesses. It includes an income statement, balance sheet and cash flow statement. Together (they are all linked in excel) these provide a complete picture of your finances. You can make a change to revenues on the income statement and see the effects of the change in accounts receivable on the balance sheet and in the ending cash on the cash flow statement. If I had only one tool to manage a company by, this would be it.

An experienced CFO or controller should be able to use Excel to build an 18-month projection model in approximately eight to 16 hours. To do it correctly, you have to tease out and model the drivers of your business, both revenue and costs. Update it each month with actuals from the previous month and the assumptions are tweaked for new circumstances.

At the beginning of the recession we produced just such a set of projections for a company whose bottom line and cash position was ugly on paper. The owner told me that if he and his management team “hadn’t used the projections [tool] to help manage the downturn in revenues, the company wouldn’t be around today.” For suggestions on building these projections go to nextlevelnow.net and click on the resources tab.

If you properly manage your cash, you will have better management information with which to run your company and therefore you will make better decisions.
A first glance it seems that Otokahe Farm in Jefferson and Revolution Energy in Portsmouth have nothing in common. Otokahe Farm raises cattle and Revolution Energy sells and services renewable energy technology. But as it turns out, they do. Like many businesses, each is cyclical, and by identifying downtimes they were able to create products and generate new revenue to drive business, even during the worst years of the recession.

Revolution Energy makes alternative forms of energy generation affordable for schools, nonprofits, municipalities and businesses. Co-founder Mike Behrmann says they initially wanted to help schools and municipalities access affordable alternative energy because “when you save a school or municipality a dollar, you’re saving the entire community a dollar.”

Revolution Energy leverages tax incentives and private capital to design, install, maintain and fund energy efficiency and renewable energy projects for municipal and commercial clients for the same cost or less of purchasing power from the grid. These are primarily photovoltaic systems. In this way a nonprofit can access cost-savings from using alternative energy sources without having to pay upfront for expensive equipment. The company has over 375 kilowatts of solar power arrays installed or under development in NH, making it NH’s largest owner of solar energy. The average installation size is 75 kilowatts.

When the recession hit, the company found people less interested in new photovoltaic systems. To improve their cash flow, the company expanded to solar heated air systems, which allowed them to attract more customers through a new product offering. In November 2011, they signed the world’s first power purchase agreement for solar heated air with Sanborn Regional High School in Kingston, saving the school $17,000 a year in heating costs.

Otokahe Farms, started in 2003, raises a herd of registered Belted Galloway cattle that look like Oreo cookies, with wide swaths of black fur encircling their white midsections. Initially, the farm just sold freezer beef. The cattle are slaughtered in the spring and fall, and the beef is immediately frozen as sides and quarters.

Kristina von Dohrmann, the company’s founder, points out, “This meant that money came in during the spring and fall, and it went out the rest of the year.” So she and her husband, Burt, needed new less costly products with a longer shelf life that they could sell year round. In 2008, they began selling everything from beef jerky to Beltie rugs and Beltie metal work decoration, as well as still breeding and selling registered livestock.

As a result of diversifying, Otokahe Farm’s profits increased. This has allowed the couple to keep their connection to the land, animals and the community strong.

So what do the businesses of cows and solar panels have in common? Quite a bit, actually. Both companies matched customer needs with products that cost less to produce and less to buy, and brought in additional revenue. Yes, diversification pays.

Otokahe Farms installed a solar heated air system at Sanborn Regional High School in Kingston

The Belted Galloway cattle graze in the field at Otokahe Farms in Jefferson
Since 1926, we’ve been proud to partner with the small businesses that drive New Hampshire’s economy. We know you’re here for the long haul. And so are we. To learn more, visit www.psnh.com.