



The CEO Challenge for November 2009

Fix Your Business Model in 2010!

It's that time of year again -- strategic planning and budgeting season. The end of a difficult 2009 and possibly a new beginning for your business.

What are you thinking about doing differently next year? Are you setting more ambitious revenue goals, or are you trying to slash costs as much as humanly possible? Are you launching a new product or service, or are you contracting your offerings? Will you fix small nagging problems, or will you reinvent your entire business?

In [September](#), I wrote a post about “Best of the Worst” companies – companies that took great pride in their success during boom times and then went down the toilet when things turned south. I then shared how “Best of the Best” companies thought differently about their business.

Now that it's November, I'd like to challenge you CEOs with more Best vs Worst thinking. Today, I'm talking about your business model and how you can change it this next year to evolve from Best of the Worst (“BOTW”) to Best of the Best (“BOTB”).

THE BOTW BUSINESS MODEL

First, let's look at some of the issues we typically find in a BOTW business model.

1. **A BOTW marketing strategy is top-down rather than bottom-up**, and it goes something like this:

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A company believes there are thousands of companies that potentially need their service, and their goal is to close 20 deals. They start with a Dun & Bradstreet list of 7,000 organizations and narrow the list to companies that have at least \$5 million in revenue, 25 employees, and geographically close. They end up with 4,000 prospects.

What happens next? They start randomly selecting names from the 4,000. Yet since most companies have a lot of steps in their sales process, this scenario literally creates a game of chance because the company is randomly selecting names to find 20 customers.

A Best of the Best company would reverse the process and say “I need 20 customers, and I’m going to be really clear on what the best customers look like so that I can build the process from the bottom up.” They determine that they need to develop 40 proposals to get 20 customers, and they probably need to pitch to 120 companies to get those 40 proposals, and that means they need to talk with perhaps 360 companies to start. Then they look for the best 360 companies rather than randomly select from a list of 4,000.

The top down approach is sheer lunacy!

2. **Best of the Worst companies build an inflexible cost structure based on external demand, not their own strategy.**

BOTW companies often don’t have a sustainable cost model because in the past, they were really just fulfilling accelerating market demand. The phone rang, they answered, they responded.

When a company takes any opportunity in sight, it creates a cost structure based on random phone calls. Somebody says “We want you to do this…” and the company says “Well, we don’t normally do that.” But then it’s part of the job, so they say, well, OK, and they hire another person, another tool, another supplier, another SOMETHING for the business.

A lot of CEOs challenge me on this concept. “Come on, Rick, times are tough. Why would I turn any business away?” I tell them that they’re building their organizations to fulfill random demand, not to excel at anything strategic. Thus, their brand doesn’t exist as anything specific. The market sees those companies as just another average builder, consulting firm, printer, or engineering firm that has no real niche or specialty. And when the market starts to

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change, when it gets really competitive, when the economy slows down, customers look at suppliers and partners with a far more critical eye. They don't want average at that point.

When the economy turns, reactive companies like this are usually the first to go out of business.

3. Best of the Worst companies think customers buy from them because they're so good.

BOTW companies are tactically focused, not business focused. They're masters at engineering, software, technology, science, consulting, etc., and their whole mindset is "We're so good that people buy from us because we're so good."

Guess what: Even if they **are** that good, they still have to produce profit for the buyer, and it's actually very rare that buyers are buying because the company is "that good." And those BOTW companies don't want to hear that and don't believe it. Just like GM. "We're the best ... the biggest ... the first" Well, is the company making more or less money? Are margins going up or down? Is market share still 70%? Don't the metrics matter?

As long as a company says it's good, it's ignoring the real issue. BOTW companies need to realize that their customers have to make money as a result of buying their product or service. If they're that busy patting themselves on the back, they're not focusing on their customer. And sooner or later, good will not be good enough.

THE SOLUTION

My [September 2009 post about Best of the Worst](#) offers a number of solutions for BOTW companies, and here are five more to help you in 2010.

ACTION PLAN

- 1. Develop a thorough revenue strategy that defines what markets and segments you will strategically dominate and how you will get there.**

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If you don't start out with a clearly-defined strategy and plan, you'll end up passively fulfilling demand as it shows up, and you'll build a cost structure that isn't sustainable. You can read more about revenue generation strategy here:

http://www.therevenuegame.com/revenue_generation.php

2. Define what niche you will dominate.

A BOTW company thinks it has a huge market for its products and services. A BOTB company has a clear value proposition and knows exactly who will care about that value proposition. When it's clear, it's pretty easy to talk with qualified prospects, even in a bad economy, because those people have a clear need. If you're talking to prospects who aren't as qualified, they're going to have an easier time saying no.

3. Focus on the customer problems that you solve.

To be strategic and proactive rather than reactive, you absolutely have to know exactly why your customers buy from you (especially if you think it's just because you're good). Don't just guess and don't turn to a blanket, generic response. To get this information, you need to spend a lot of time with your customers on an ONGOING basis, not just when you want information or think something is happening. Then you have to have a strategy for why they should buy from you IN THE FUTURE.

4. Make sure your organization is aligned to drive and support your revenue strategy.

"Alignment" is one of my favorite topics, and I can talk about it for days. Here are two pages that address this concept:

- <http://www.therevenuegame.com/ceochallenge/05/chief-revenue-officer/>
- http://www.therevenuegame.com/stage_5_revenue_standards.php

5. Develop a plan to measure and improve your revenue-related metrics.

In my September post, I talked about the importance of external metrics; you need to measure your performance versus the market. Those metrics are critical.

You should still have a collection of internal metrics including a very detailed look at your revenue chain. Many companies just look at the very last link – when the customer buys – to see whether they're closing profitable deals. Yet if the first link in the revenue chain is leads and you're getting the wrong leads, the rest of the chain will never be successful. So if the only thing I measure is the last step where we look at how many good deals with high margins came out, we may shoot the sales force. Maybe the problem was that our market segmentation, our strategies, our campaigns generated the wrong leads to pursue and close. I

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wouldn't care if our leads cost a penny each because they're all wrong and if entered into the pipeline will have a stifling cost.

Applying metrics to every step in your revenue chain can help you narrow your focus and move from a top-down to a bottom-up strategy. Thus, you should define, evaluate, and improve on those metrics on a monthly basis.

CONCLUSION

Transforming your business from Best of the Worst to Best of the Best is not a small undertaking, but the longer you wait, the worse your predicament. I would like to really challenge you to take your 2010 planning process to a whole new level. Use it to redefine what you will be for which group of customers. Move beyond tactical implementation to a strategy that can drive your growth for the years to come!

What do you think?

Are these concepts going to make it into your plans for 2010?

<http://www.therevenuegame.com/ceochallenge/11/fix-business-model/>

Shameless self promotion: Many of you have asked me about services to help you move toward BOTB status in 2010. In response, we're now offering 2010 revenue strategy & execution services. To learn more, visit this page:

<http://www.therevenuegame.com/strategic-planning-consulting-services.php>

We also invite you to contact Jane Adamson, CEO, at (866) 356-8979 or janeadamson@therevenuegame.com.



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