# RealityCheck® Example

# ABC Ltd
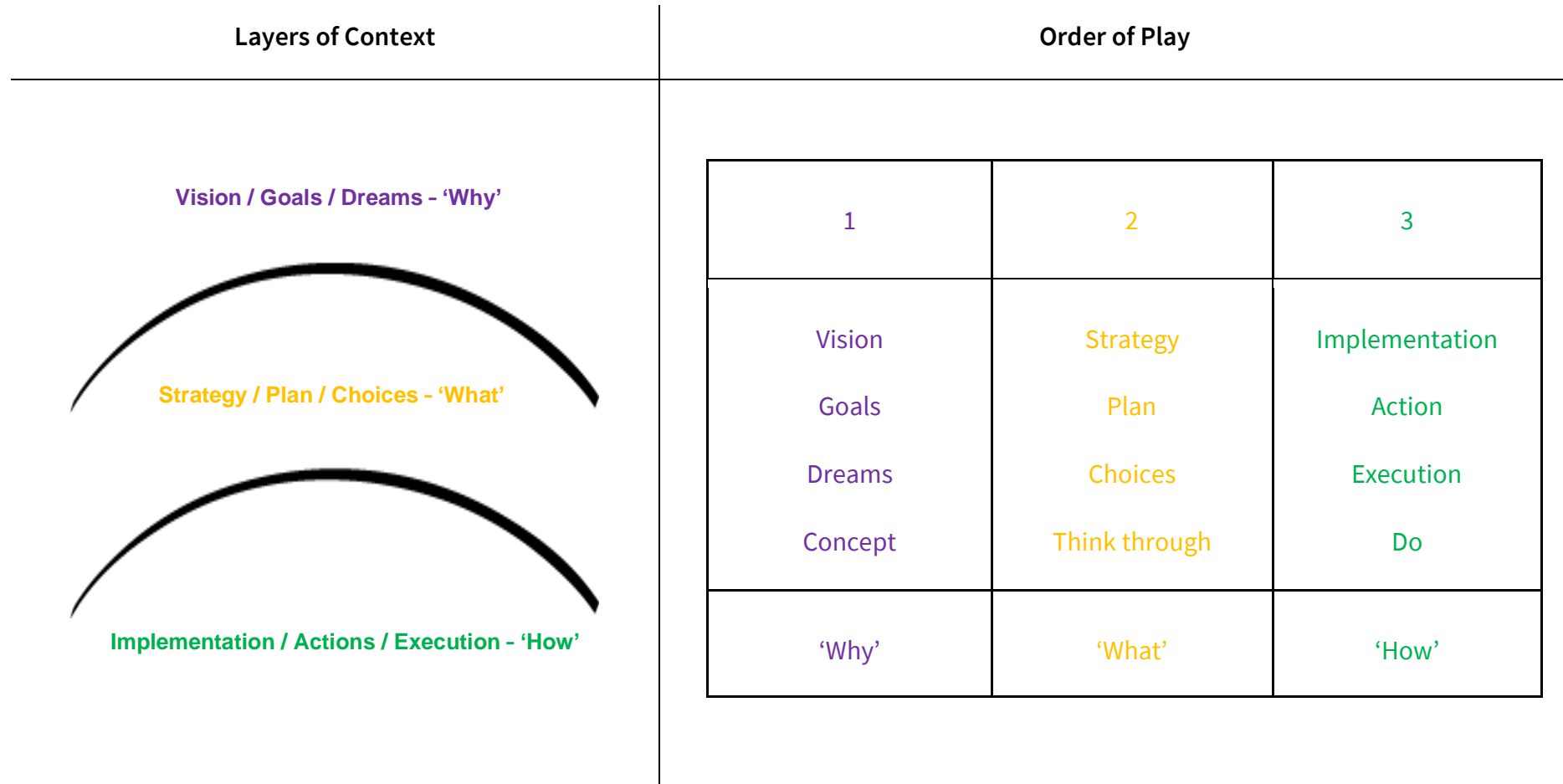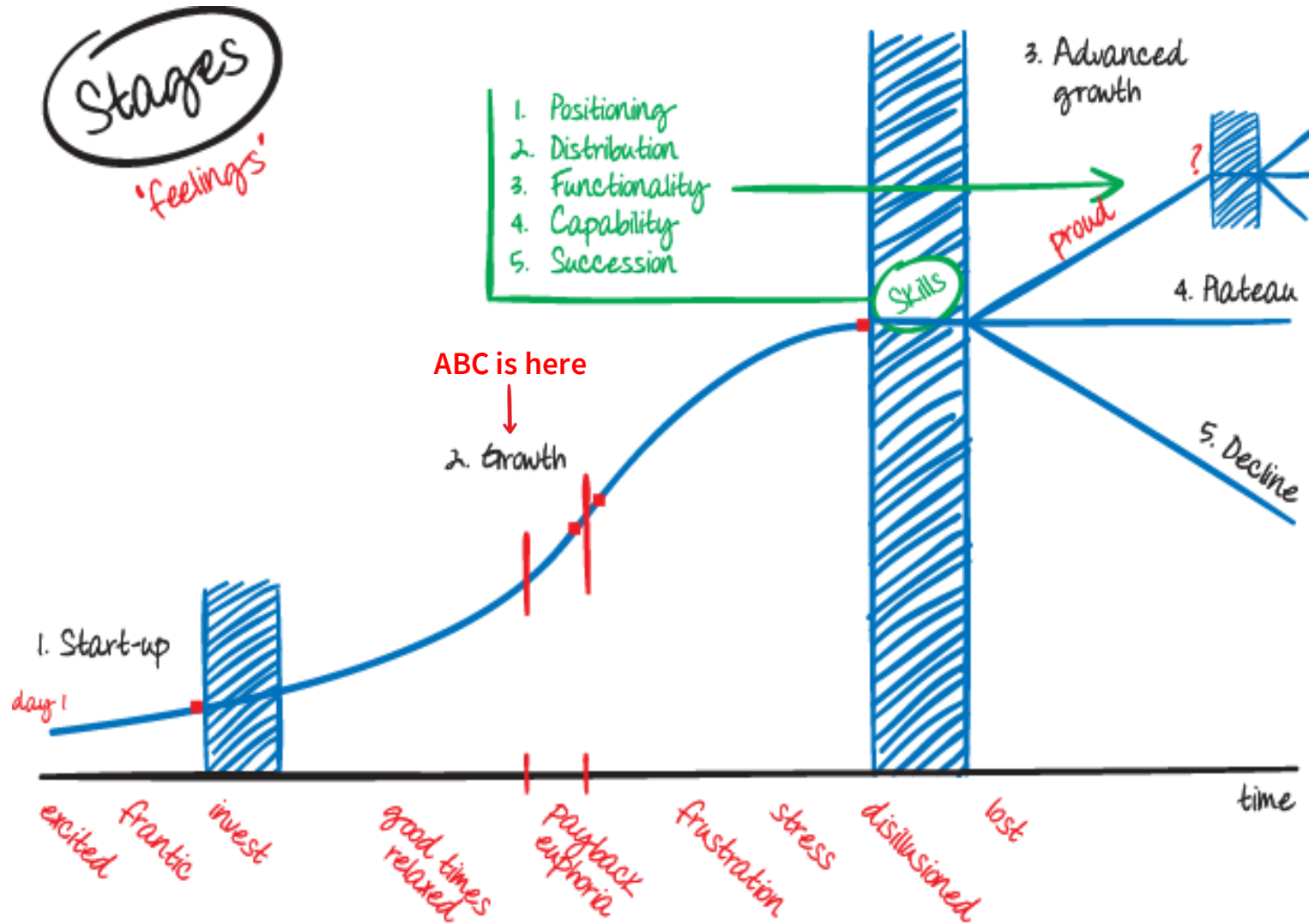
# Contents

## Project Process

1. Peter recently sent an email to a selection of the team to explain the project and the interview process.

2. I interviewed 13 management and staff, as follows:

   - Peter Plank – Managing Director
   - Justine Jolly – Financial Director
   - Sarah Smith – Finance & HR Administrator
   - Leo Langshott – Plant Co-ordinator
   - Brett Beech – General Manager
   - Tony Tudor – Plant Manager
   - Victor Vish – Plant Engineer
   - Priyanka Patel – Plant Engineer
   - Chris Copse – IT Support
   - Kate Kale – Workshop Technician
   - Fred Fuller – Plant Co-ordinator
   - Mo Maine – Plant Co-ordinator
   - Hans Halo – Senior Plant Engineer

3. This document is written.

4. This document is presented to Peter.

5. I will make adjustments per Peter's comments.

6. I will present headlines from this document to all staff in a PowerPoint presentation and discussion.

7. Peter and I will discuss next steps.

8. I will write a costed proposal for implementing report recommendations for Peter to consider.

## Layers of Context / Order of Play

| Layers of Context | Order of Play |
|---|---|

**Layers of Context**

**Vision / Goals / Dreams – 'Why'**

**Strategy / Plan / Choices – 'What'**

**Implementation / Actions / Execution – 'How'**

**Order of Play**

| 1 | 2 | 3 |
|---|---|---|
| Vision | Strategy | Implementation |
| Goals | Plan | Action |
| Dreams | Choices | Execution |
| Concept | Think through | Do |
| 'Why' | 'What' | 'How' |

# Business Stage of Life

Stages 'feelings'

1. Positioning
2. Distribution
3. Functionality
4. Capability
5. Succession

ABC is here

1. Start-up
2. Growth
3. Advanced growth
4. Plateau
5. Decline

Skills

proud

day 1

excited    frantic    invest    good times relaxed    payback euphoria    frustration    stress    disillusioned    lost    time

Comments:

Excellent growth and profitability to date.

Multiple revenue streams.

Well-respected in marketplace.

Blue chip client base.

Peter has strong leadership position.

Created and run as a lifestyle business.

Key investments now required to achieve full potential, such as:

- Define clear vision for future
- Clear positioning of ABC as a brand (as distinct from Peter Plank)
- More formal functional structure and systems
- Create additional channels to market
- Bridge capability gaps
- Create clear succession plan

# Three Areas of Business – Concept

There are three key areas of operation shared by every business, large or small: Infrastructure, Revenue and Strategy:
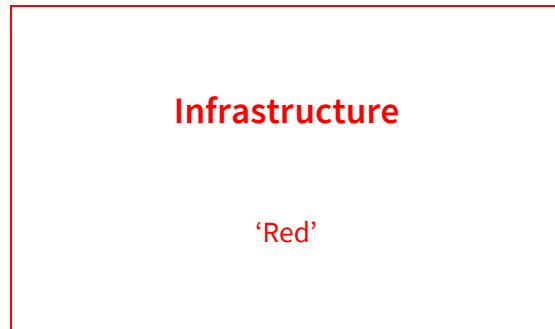
| Infrastructure | Revenue | Strategy |
|---|---|---|
| **Infrastructure** | **Revenue** | **Strategy** |
| 'Red' | 'Blue' | 'Black' |

The infrastructure ('back office') that supports the business. This includes process efficiencies, staff productivity and effective resource allocation.
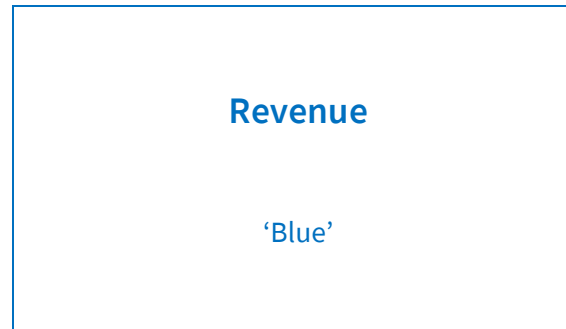
The revenue generating part of the business. This includes the design of operating systems for managing the expectations and outcomes for clients / clients.

This area focuses on building long-term shareholder value. It includes functions that increase the Multiple (Value = Profit x Multiple).

Thus, 'Red' and 'Blue' functions are relatively short-term day-to-day activities, whereas 'Black' functions focus on the relatively long-term. Therefore, it's possible to analyse the time all staff work in the business divided into the three areas, see how all resources are used now, and plan them in the future:

## Resource Utilisation

45%

50%

5%

■ "Red"  ■ "Blue"  ■ "Black"
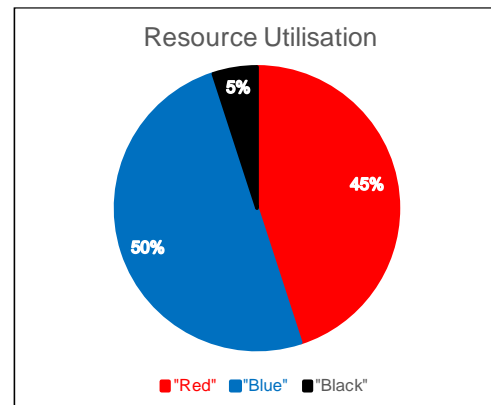
**Example only**

**Scoring**

Relative to 'self':

✔ Operating well

– Functioning OK

✖ Requires focus

## Three Areas of Business – Scoring

### Infrastructure

| Area | ✔ | – | ✖ | Comment |
|---|---|---|---|---|
| Information Technology | | – | | Issues with ordering system, the business will need a cloud-based system in time as the company grows.<br><br>Company database developed in-house, SQL-based, but possibly vulnerable if the system is overstretched. It is heavily dependent on one individual. |
| Accounting & Finance | | | ✖ | Management accounting capability in the business is weak. Spend is reviewed retrospectively, but there are no targets or budgets that business performance is linked to. |
| Human Resources | | | ✖ | Recruitment is a struggle – it's difficult to get good people, in part due to current pay and benefits package compared to other businesses.<br><br>Awareness of role descriptions was mixed; performance reviews are unofficial or inconsistent.<br><br>Capability to interview, induct and train people was reported as 'poor'.<br><br>Annual bonus is discretionary and calculated on managers' 'gut feel' rather than based upon a documented process, developed using KPIs or a measure of productivity. |
| Premises | | | ✖ | Premises are perceived to be substandard in terms of office space, welfare and workshop facilities. |

## Three Areas of Business – Scoring (continued)

| Scoring |
| --- |
| Relative to 'self': |
| ✓ Operating well |
| – Functioning OK |
| ✖ Requires focus |

### Infrastructure (continued)

| Area | ✓ | – | ✖ | Comment |
| --- | --- | --- | --- | --- |
| Administration / Secretarial | | – | | There is little back-office resource at present, the demand for this will grow as the business expands. |
| Compliance & Risk Management | ✓ | | | Successfully implemented ISO 9001 and ISO 14001. |
| Legal | ✓ | | | Good relationship with existing law firm. |
| Capacity (running rates) | | – | | Overall the sense was that the whole business is running at 50-60% run rate on average. However, it is unevenly spread – some functions and people are working at full capacity, whereas others are underutilised. Also, run rates vary across the month, with a marked build up towards the end of each month.<br><br>A majority, but not all, reported a good work-life balance. |
| Functionality (clarity of roles & functions, workflows, policies & procedures) | | | ✖ | Clarity around roles and responsibilities is mixed, e.g. some roles are unclear, undocumented or lack detail.<br><br>The business operates with a 'can-do' culture, however, delegation as a management practice is inconsistent.<br><br>Procedures are undocumented and inconsistently applied e.g. there's a rule of 'no purchase without a PO', but sometimes it happens retrospectively when the invoice comes in. There isn't a specific person or limit for initiating a PO, it depends on the function. |

**Three Areas of Business – Scoring (continued)**

### Revenue

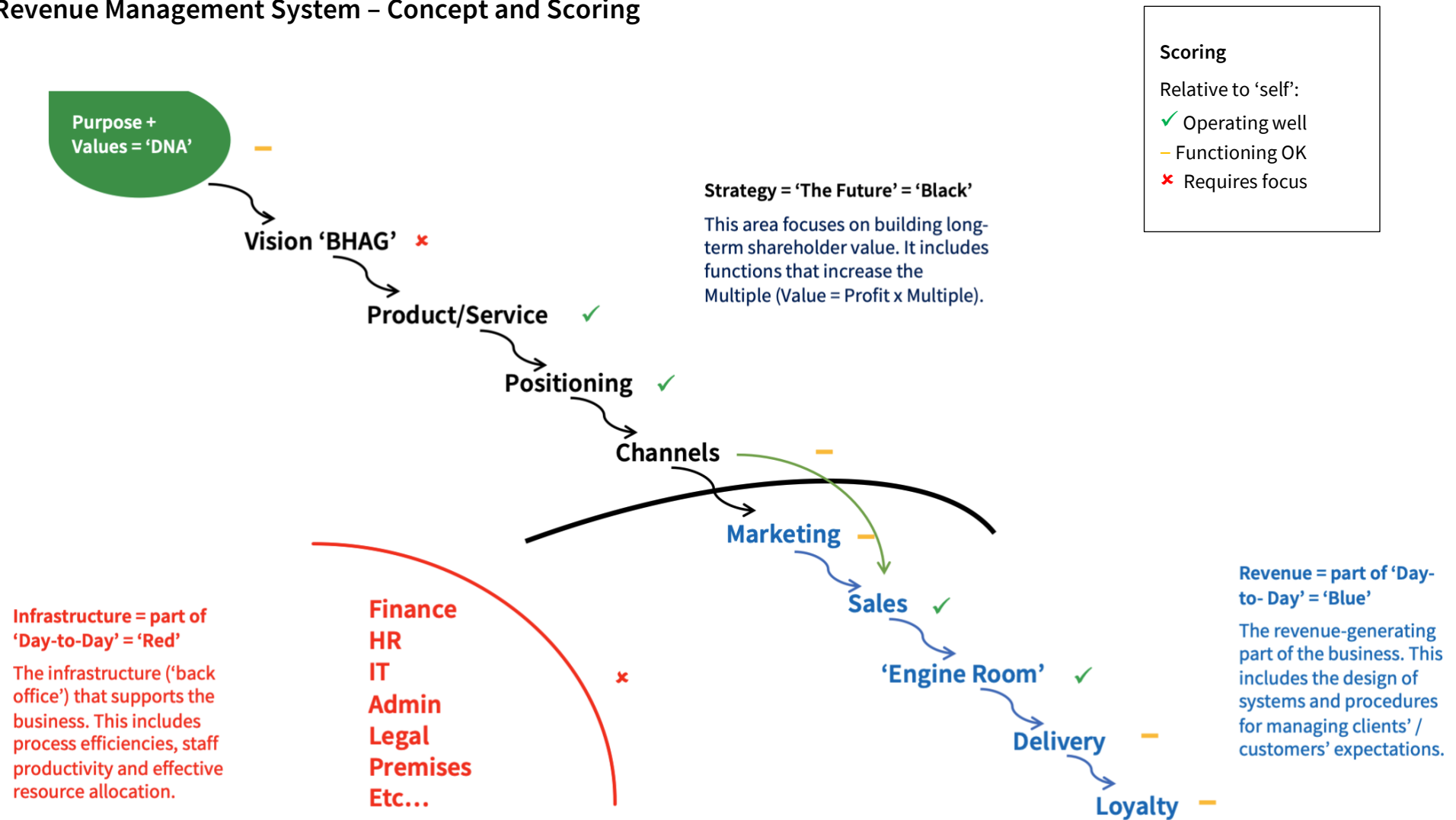| Area | ✓ | – | ✖ | Comment |
|------|---|---|---|---------|
| Marketing | | | ✖ | No active marketing of the business. |
| Sales | | – | | Beyond building upon existing relationships, there's no sales KPIs or structure for building a pipeline or new relationships. Business is won through Peter's connections in the industry and through the company's reputation. |
| 'Engine Room' | | – | | ISO accreditation means that processes are in place, that now need consistent application.<br><br>Performance in this area is inconsistent, as it is dependent upon the personality and effort deployed by individual engineers. |
| Training | | | ✖ | Some on-line training courses are available (COSHH, health & safety), but more client-based and physical training is needed and improved induction for new starters. |
| Loyalty | | – | | All clients treated the same, no formal strategy. 50% of the work comes from one introducer. |

# Three Areas of Business – Scoring (continued)

Scoring

Relative to 'self':

✓ Operating well
– Functioning OK
✗ Requires focus

## Strategy

| Area | ✓ | – | ✗ | Comment |
|---|---|---|---|---|
| DNA (culture, purpose & values) | | – | | Words used to describe the feeling in the business include 'family, team, unrefined, easy-going, friendly', but that the culture could be stronger. There's also an appetite for more social events beyond the annual Christmas party. |
| Vision | | – | | Beyond 'bigger in scale and size of premises', no one was able to articulate a vision for the business in 3-4 years' time. |
| Product / Service | ✓ | | | Consistent high quality of service has created a strong reputation in the industry, resulting in growth from different revenue streams. No formal process around pricing - pricing is based on base rate + a premium but priced less than competitors. No price reviews in recent years, although one client is charged a higher rate than others. Margins are good even though existing contracts do not build in increases for inflation. |
| Positioning | | – | | The business is built upon a sound reputation: 'does what it says on the tin', 'they do a proper job', 'ABC can do that', 'good service', 'quality of work'.<br><br>However, this perception is strongly linked to Peter personally (i.e. ABC = Peter Plank). |
| Distribution (Channels) | | – | | Strong relationships with many industry leading businesses, although many are through Peter. Brett is emerging as a potential commercial lead who could build relationships in the industry, so that the business is less dependent upon Peter's connections. |
| Mergers & Acquisitions | | | | N/A |

# Revenue Management System – Concept and Scoring

**Purpose + Values = 'DNA'** —

Vision 'BHAG' ✗

Product/Service ✓

Positioning ✓

Channels —

**Strategy = 'The Future' = 'Black'**

This area focuses on building long-term shareholder value. It includes functions that increase the Multiple (Value = Profit x Multiple).

Marketing —

Sales ✓

'Engine Room' ✓

Delivery —

Loyalty —

**Infrastructure = part of 'Day-to-Day' = 'Red'**

The infrastructure ('back office') that supports the business. This includes process efficiencies, staff productivity and effective resource allocation.

**Finance
HR
IT
Admin
Legal
Premises
Etc…**

✗

**Revenue = part of 'Day-to- Day' = 'Blue'**

The revenue-generating part of the business. This includes the design of systems and procedures for managing clients' / customers' expectations.

# Business Valuation – Concept and Scoring

## Valuation = Profit x Multiple

| Effect on Multiple | Area | Concept | Written Plan | Action |
|---|---|---|---|---|
| **Most Positive** ↑ ↓ **Least Positive** | Scale | ✖ | ✖ | ✖ |
| | Positioning & Brand Architecture | ✖ | ✖ | ✖ |
| | Channel Extension | – | ✖ | – |
| | Product Extension | – | ✖ | ✖ |
| | Product Innovation | – | ✖ | – |
| | Systems & Infrastructure | ✓ | – | – |
| | Culture & Talent | – | ✖ | – |

### Industry Benchmark Multiple x1

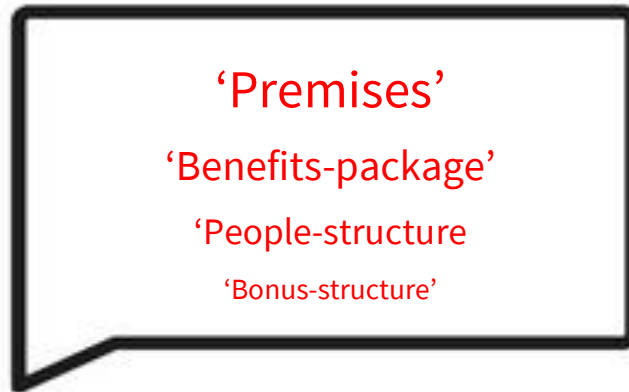| Effect on Multiple | Area | Concept | Written Plan | Action |
|---|---|---|---|---|
| **Least Negative** ↑ ↓ **Most Negative** | Costs | ✓ | ✖ | – |
| | Revenues | ✓ | ✖ | – |
| | Assets | – | ✖ | – |
| | Liabilities | – | ✖ | – |
| | Management Team | – | ✖ | – |
| | External Factors | ✖ | ✖ | – |

### Scoring

From a buyer or investor's perspective, based on underlined written evidence of its existence.

✓ yes
– to some extent
✖ no

## 'One Thing'

Each person interviewed, apart from Peter, was asked 'if there's only one thing you could change to improve the company, what would it be?'. These 'Wordle' diagrams illustrate the answers. The larger the word, the more often it was mentioned. The colours link with the three areas of business explained on page 6.

'Premises'

'Benefits-package'

'People-structure

'Bonus-structure'

'Marketing'

'Recruitment'

'Training'

# Recommended Projects

## Vision & Direction (Strategy = 'Black')

To support the team to maintain a desire for continual improvement and foster continued commitment, the next vision of the business must be crystallised and effectively communicated. ABC will benefit from a set of contextual references to support decision-making across the business and ensure clarity on the choices and direction of the business – i.e. a contextual business plan. This will also help the team to see how they can continue to progress and develop their careers.

**What is it?**

- Clarification of business vision with the senior team.
- Ensure that business has a 'feeling' connection with the vision.
- Design a way to share the vision across the business and 'bring it to life'.
- Design 'what's in it for me?' messages.
- Use vision to define key strategic choices in the form of a contextual business plan.

**What are the benefits?**

- Connection to the business vision – allowing the team to connect individual futures to that of the business.
- Alignment between direction of business and senior team.
- Defines cultural 'glue' that binds the business.
- Help attract and retain key talent.
- Framework to support decision making and reduce dependency on Peter.
- Framework to support effective implementation of the Functionality project.

# Recommended Projects (continued)

## Positioning (Strategy = 'Black')

Positioning refers to the place that a brand occupies in the mind of the client and how it is distinguished from competitors. From the Fact Find it became clear that the name Peter Plank is as or possibly even more well known in the industry as ABC. For ABC to achieve the growth hoped for, it is essential for the ABC brand to have a clear Position in the market.

### What is it?

- Use of Reis and Trout's Positioning work from the 1970's, adapted by Shirlaws for SMEs in the 2000's, further developed by me over the last few years using Seth Godin's framework.

- Analysis of ABC's current Position in the marketplace (externally).

- Comparison with competitors' Positions in the marketplace.

- Making a strategic Positioning choice to support ABC's Vision and Direction.

### What are the benefits?

- Increased shareholder value (intangible asset).

- Aligned Product and Distribution (channels to market) strategies.

- Competitive edge and profile.

- Consistency internally and externally.

- Attracting the right businesses and people.

- Recognition, focus and pride.

# Recommended Projects (continued)

## Functionality (Infrastructure = 'Red')

In order to achieve improvements in efficiency and to act as a foundation for the future, the business now needs a more formalised yet flexible framework. A Functionality project will support clearly defined responsibilities and will ensure that time is focused on the right areas of the business.

The theme here is 'improving 100 things each in a small way' as opposed to a 'single silver bullet' approach.

### What is it?

- Use of Shirlaws' Functionality framework.
- Current tasks, job descriptions, roles and responsibilities are analysed.
- A Functionality Strategy Paper is written by a 'virtual team' led by a volunteer.
- Functional 'fixes' are planned and implemented.
- Functional Position Descriptions are created and, where appropriate, workflows.

### What are the benefits?

- Increased efficiency.
- Clear roles and responsibilities.
- Improved morale.
- Better balance of resources.
- Create capacity for strategic planning.
- Smoother running business.
- Empowered management and staff.
- Improved opportunities within the organisation.

# Projects' Implementation Speed

Depending on the needs of the business, each Project can be undertaken at a different speed, as follows:

Slow implementation: fewer resources are involved, and the project takes significantly more time to fully implement.

Medium implementation: the resources of people, time and money allow for an implementation process that is constant in terms of people and time allocated to the project.

Fast implementation: resources are significantly increased, while the amount of time allocated to fully implement the project is decreased.

**Key:**

Concept – understanding

Strategy – write the plan

Implementation - action

## Appendix

### RealityCheck® questions

### Strategy

- Business model / valuation

    o What does your business currently look like? Describe it in a series of bullet points e.g. established 10 years ago; mid-tier; 3 Directors, etc.

    o Do you have a formula to calculate the value in your business?  If so, please advise what the formula and the value is.

    o What capital growth has occurred for your business since its inception?

    o Describe your revenue growth since starting the business.

    o Do you know where you are in your business cycle?

- Vision

    o Describe your business goals and vision.

    o Do you have a Business Plan?

    o What are the business's goals and desired outcomes?

- Product

    o How do you price and package your products / services?

    o What new products / services have you introduced to your client base in the past 5 years?

    o When did you have your last price increase / decrease? Why?

- Positioning

    o How strong and clear is your product/service in the marketplace?

    o What is your brand known for in the marketplace?

- Mergers & Acquisitions

    o What mergers or acquisitions have taken place? What are the details surrounding these?

- Client Base Management

    o Do you analyse profitability by client? If so, how often?

- o   Do you differentiate between your clients in terms of the level of service and attention they receive?

- Channels

    - o   Where does new business come from?

    - o   What are your routes to market?

- Capacity

    - o   How would you describe your workload?

    - o   How would you describe the balance between your home life and business life?

- Culture

    - o   How would you describe your culture?

    - o   How conscious are you of what you are in business for?

## Revenues

- Marketing

    - o   How would you describe your marketing?

- Sales

    - o   How good is the business at converting prospects?

    - o   How would you describe the selling skills within your business?

- 'Engine Room'

    - o   Does everyone within the revenue generating areas of your business process your client orders / requests in the same way?

    - o   How well do you service your clients?

    - o   How are your products / services processed?

- Delivery

    - o   How are products / services transferred to clients?

- Loyalty

    - o   How loyal are your clients?

- o What service programmes do you have in place for clients?

## Infrastructure

- IT
  - o How efficient and reliable are your IT systems?
  - o When was your IT system last upgraded?  In what way was it upgraded?
- Finance
  - o What are your turnover figures for the past three years?
  - o What are the Gross figures for each Partner/Director/Manager?
  - o How strong is your balance sheet?
- Legal
  - o What are the legal issues and regulations relating to your business?
- Compliance
  - o What are the compliance issues relating to your business?
- HR
  - o Are there any 'people issues' that need addressing?
  - o How are roles and responsibilities defined within your business?
  - o What plans do you have in place to move people up and through your business?
  - o What is the current staff turnover percentage?
  - o Has the staff turnover % risen or fallen in the past five years?
  - o How are your bonus systems structured?
- Administration
  - o How would you describe administration in the business?
- Training
  - o How much training and development does the business provide?

- What is the approach to orientating a new staff member into the business?
- Communications
  - How easy do you find it to communicate – get your message across – to (1) the person you report to, (2) colleagues, (3) people who report to you?
- Company structure
  - How is your business structured legally, financially etc.?
  - Do you have a Board in place? Describe your Board.
  - What is your organisational structure?
- Policies & Procedures
  - What Policy and Procedures (P&P) do you currently have written down?
  - When were the P&P documents last reviewed and updated?
- KPIs
  - What monitoring systems do you have in place?
- Management systems
  - How well does the company manage staff?
  - How would you describe your management systems?
  - How easily does the business make decisions?
- Premises
  - How would you describe your premises?

## Suppliers

- Who is your Accountant?  How would you describe your relationship with them?
- Who is your Lawyer?  How would you describe your relationship with them?
- Who is the external support for your IT systems? How would you describe your relationship with them?
- Who do you bank and manage your finances with? How would you describe your relationship with them?
- What levels of insurance do you have for your business?

- What external training or coaching providers do you use for your business? What is the frequency of their involvement with your business? How effective are they?

**Notes**