

# Chad's Twelve Steps to Financial & Commercial Success

Pearls of Wisdom from Little Chadwick's most opinionated barman

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## 1. Be Customer Led

Give your customers what they want to buy rather than what you want to sell them. Talk to them and hear what they're saying; customer feedback is gold dust. And customers change over time – in number, nature, buying power, tastes and preferences. Keep up.

## 2. Have a Clear and Consistent Market Position

Avoid giving your customers mixed signals. If you're a high-class dining establishment, why have loud music or karaoke? If you try to appeal to every market, you may well end up appealing not very much to anyone. Better to do one or two things very well.

If you change too much too often, your customers will become confused as to what to expect from you. New services or facilities will take time to 'bed in', for word to get around and for the market to wake up to your new offering. If you try something new, be prepared to give it a little time.

## 3. Watch the Competition

Every customer has a choice. Why did they come to you this time and why might they go somewhere else next time? What are our competitors doing that we're not? Should we be doing it too? If we don't know what our rivals are doing, how will we spot the gaps in the market? Our refurbishment or garden might give us an early advantage but remember this will erode as others improve their offering too.

## 4. Don't Chase Bodies

"Turnover is vanity, profit is sanity". You have to see beyond the top line (the sales figure). If you want to be the most popular pub in the village, sell the beer at cost price – everyone will love you. But there has to be enough 'gross profit' left after paying for the cost of your product to cover all the overheads, the interest on any debts *and* to make a decent return for the owners of the business. So, whilst Sales is an important figure, you can't focus on that to the exclusion of everything else. Remember too that some costs will rise as your sales increase - cheap pints will need the same customer service as expensive ones.

## 5. Premium Costs Need Premium Prices

If your product is expensive to deliver (think very high service levels or lots of entertainment), it's difficult to also have very low prices. With a very high cost-base and a very small gross profit from each customer, you will need to attract a *huge* share of the available customers to make a good profit. In a very competitive market place with a finite amount of space at your disposal, that is probably not going to work.

## 6. Sell More to Existing Customers

Most diners will buy a drink with their meal. Most overnight guests will buy a meal (and a drink) with their room. It's often easier to sell more to your existing customers than to find new ones. These 'cross-selling' opportunities provide a hidden benefit of moving into the hotel sector and in making food widely available. Pool tables and fruit machines provide similar benefits – as long as they fit with your pub's market positioning.

## **7. Watch Your Staff Costs**

For pubs (and for many service businesses) people represent a huge chunk of the costs and controlling that cost is vital. Good customer service is important but you can also over-provide in this area. If you've gone off the scale on your customer service graph, you're probably over-staffed. Anyone who wants to provide "the best customer service, whatever it costs" is probably talking about someone else's money.

## **8. In fact, Watch All Your Costs**

You need to be a hawk on cost control. So many battles are won and lost in the bottom half of the accounts where your overheads take chunks out of your gross profit. Routinely challenge every cost of the business. Does incurring this cost improve the performance of the business, even if only in the long-term? If it doesn't, it is hard to see why the business should be incurring it. And be careful with the overhead ratios – as your sales increase, these costs should probably *fall* as a proportion of sales (since most are unrelated or only partly related to the sales figure). A constant overheads % when sales increase is bad news!

## **9. Plan Ahead**

You can't do everything at once, so prioritise and plan what's going to happen when, allowing for the time lags involved in providing new facilities or introducing new services. Out in the real world, you'll almost certainly want a proper budgeting process which will plot a route to where you want to take your business and allow you to check how you're doing against your plan.

## **10. Sweat the Assets**

A horrible phrase, but you have to make sure that every pound tied up in your business is working hard. In this game, you have to pay interest on all the money you invest in the facilities – in guest rooms, car parks, gardens and so on – and so this expenditure is going to have to bring in more business to cover the higher interest charge. Even if you didn't have any debts, that would still be cash that the business owners could invest elsewhere, so you need to make sure that every pound is making a decent return. That's probably going to mean unlocking the front door for as many hours as possible.

## **11. Look Out for Diminishing Returns**

You need to know when to stop building guest rooms or installing pool tables. That sixth guest room will only get sold when the first five have been taken, so the extra benefit of having one more room is likely to get smaller and smaller.

## **12. Use the Information Available**

Use the information lovingly prepared by the finance people (and others). The regular, systematic review of accounts, ratios and (if available) graphs is absolutely crucial. For the information to be useful, you have to continually make comparisons. For example, if our gross margin is 60%, we can only interpret this information properly by asking one or more of 3 questions:

- How does it compare to our gross margin in previous period(s)?
- How does it compare to the gross margin of our rivals?
- How does it compare to the gross margin in our budget?

There is no budget in this game but systematic comparisons over time and against our rivals are essential, especially if you want your team to come out on top.