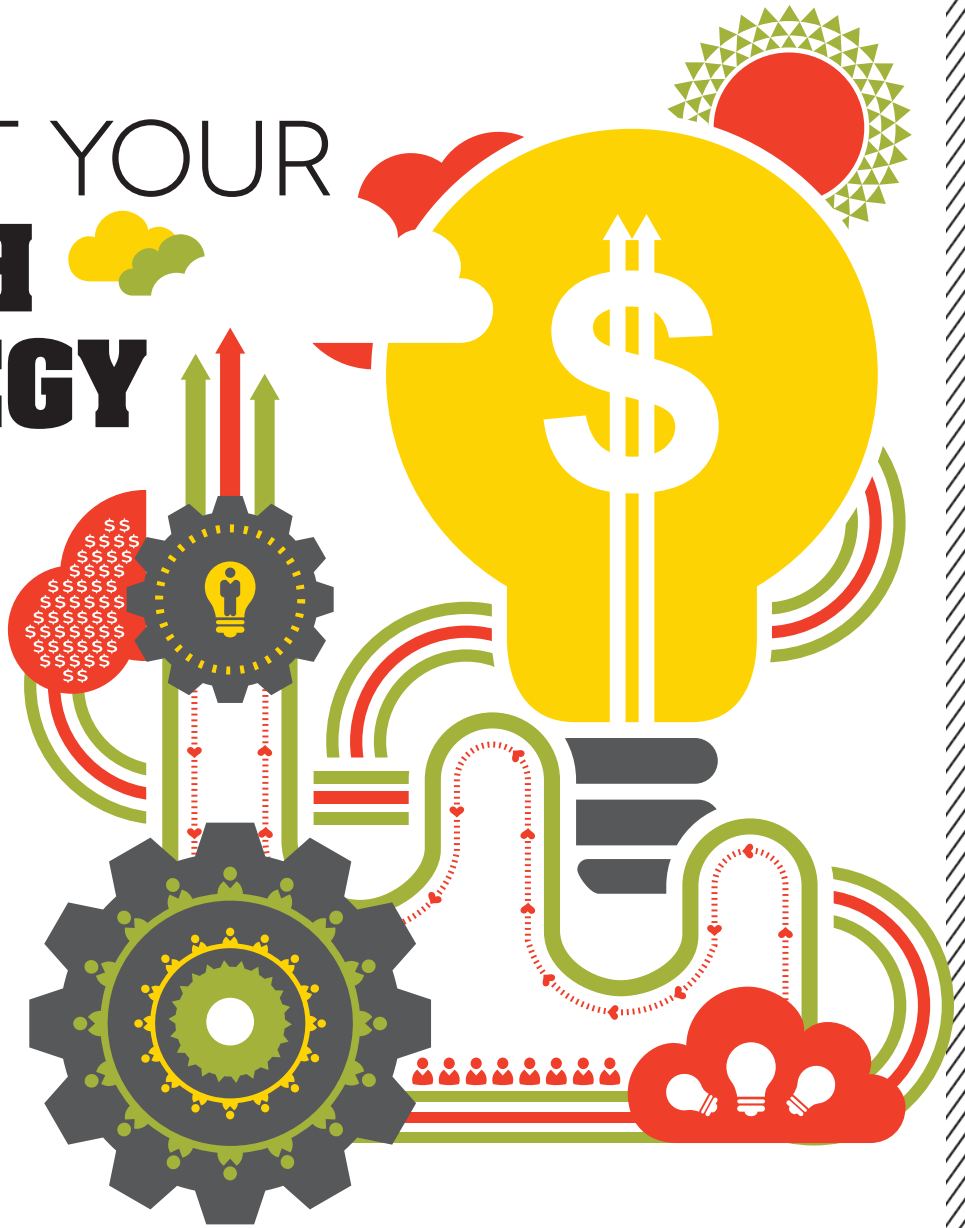


MAP OUT YOUR GROWTH STRATEGY

If you've made the decision to grow your business, here are 4 important considerations, such as knowing your bread-and-butter project size and ideal customer. **BY PAUL SELF**



THE SYSTEMS integration business is back on solid footing and many contractors are growing. The question is: are you growing randomly because of the economic upturn, or are you focused on an intentional growth plan? Then there's always the third option, to stay right where you are, which is very valid.

As you are planning for 2015 and all of the possibilities that a new year brings, there are basic questions that will drive the growth decision. Consider:

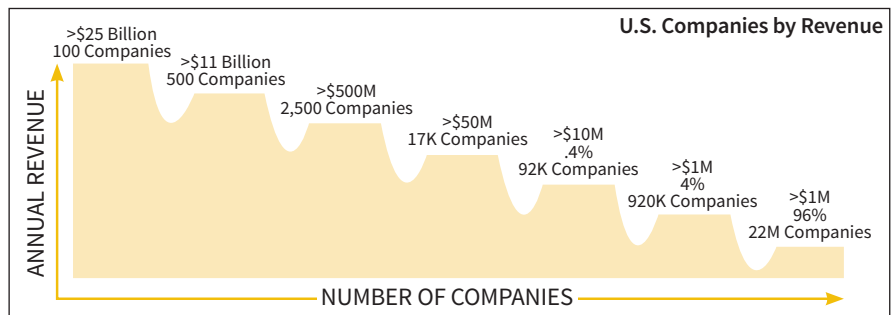
1. What size should your business be?
2. What business mix makes the most sense for your company's skill sets?
3. Exactly who is the ideal customer and how do you acquire them?
4. What does the organization chart look like and when do you hire?

HOW BUSINESS SIZES STACK UP

There are business sizes that make sense for a variety of reasons, such as: leveraging overhead, revenue per employee, hours worked per employee, square footage needed, and many more. Below is a graph of the number of companies at different sizes.

This is based on the latest census data and has proven to be true for many years. You will notice a pattern of growth with troughs of fewer companies between the

plateaus. This is because businesses are more efficient at those plateaus. There is a significant number of companies in the custom electronics industry that are between



In the U.S., there are distinct plateaus in the number of companies that exist at certain revenue levels with "troughs" of fewer companies in between. Those dips in the number of companies represent efficiency challenges, usually in terms of personnel.

**TYPICAL CUSTOM INSTALL PROJECT SIZE
BREAK DOWN (YEARS 1-3)**

YEAR	LARGE PROJECT			MEDIUM PROJECT			SMALL PROJECT			SERVICE PROJECT		
	Qty.	Equip Rev.	Labor Rev.	Qty.	Equip Rev.	Labor Rev.	Qty.	Equip Rev.	Labor Rev.	Qty.	Equip Rev.	Labor Rev.
1	1	\$300K	\$200K	2	\$100K	\$102K	5	\$300K	\$200K	50	\$75K	\$175K
2	2	\$600K	\$400K	4	\$600K	\$400K	10	\$600K	\$400K	70	\$105K	\$245K
3	3	\$900K	\$600K	6	\$900K	\$600K	15	\$900K	\$600K	90	\$135K	\$315K

For the first three years of a custom installation company's existence, the business and revenue mix of large, medium and small projects, along with service calls, stays consistent in terms of ratio.

\$1 million and \$10 million and they have huge efficiency challenges because they can't fully leverage their resources.

A typical business unit in this industry equates to a salesperson, a project manager, four to seven installers, 1/4 of an engineer and 1/4 of a programmer. This team should produce about \$2.5M in gross revenue. The problem you may have noticed is the quarter of an engineer and programmer — these skilled employees are expensive and rare. It is really difficult to afford the full measure of those skills when you're a \$2.5M company. You can limp along at \$2.5M with key people doing double duty or outsourcing. However, you are in the trough of inefficiency and need to get out or minimize the need for complex engineering and programming. I would recommend you hover at this size while planning to grow enough for another team.

“DON'T JUST RANDOMLY GROW. PICK YOUR BATTLE AND WAGE IT ON YOUR TERMS.” — PAUL SELF OF PAULSELF.COM CONSULTING

It is OK to stay at \$2.5M, become very efficient, and milk the profit out of the company for yourself. I strongly discourage whimsically drifting into the \$4M range. The customer-to-employee ratio fit doesn't work. Employees are putting in too much overtime and typically don't do their best

work; scheduling becomes nearly impossible. The customers usually get the short end of the stick, ultimately hurting your brand.

If you plan to grow, then grow in full team increments. Turn on the marketing, hire the right people at the right pace, and grow intentionally. It makes a lot of sense to plan your growth and get to \$10M as quickly as possible.

BUSINESS MIX HAS RANGE OF PROJECTS

I have a worksheet I use with clients to help them isolate their clients and create the ideal business mix. Every business has projects that range from small, medium, large and service.

Above, is a very basic example of how to create your own business mix table. I've broken it down by equipment and labor because this allows me to forecast labor hours, people and net profit.

You can define these project sizes any way you want to. Consider your most popular project sizes (not the mathematical average size). This will help you see what your customers are buying from you the most and what you are good at doing. Contractors and customers gravitate to their own comfort level.

There are some companies in this industry that have amazing engineering departments and do \$2M jobs really well, but they struggle on the \$100K jobs. I refer to this as “swatting a fly with a sledgehammer.” Other companies are going to be very good at the \$75K family room system. You need to define “ideal” for your company and optimize around this project.

My experience has been that about 50 percent of a company's business mix is one

type of a project. Let's say Company X's ideal project is \$250K, its business mix may look like:

IDEAL PROJECT MIX FOR \$2.5M INTEGRATOR		
PROJECT SIZE	QTY	TOTAL
\$500K	1	\$500,000
\$250K	6	\$1,500,00
\$75K	5	\$375,000
\$25K	2	\$50,000
\$5K	15	\$75,000
TOTAL: \$2,500,000		

A typical \$2.5 million custom integrator will have only one large project going at once.

MARKETING TO THE RIGHT CUSTOMERS

If you spend all of your marketing efforts, business development and sales efforts pursuing that \$250K project, then the others will naturally show up. I do mean all of your client acquisition efforts, including:

- ▶ **Customer definition** — exactly who they are, where they live, what they do ... you need to know every piece of information about this persona.
- ▶ **Message** — all of your messaging needs to be wrapped around this project, such as SEO, brochures, proposals, blogs, presentations, trade-shows, social media, vans, etc.
- ▶ **Business development** — efforts with architects, builders, designers and other decision influencers.
- ▶ And there are others ...

To Grow or Not? Business Breakdown Worksheet

A BENEFICIAL EXERCISE for any custom installation company looking to grow is to identify who your “ideal customer” is and exactly the methods you plan to take to capture that person as a client. Analysis of property values, your costs/expenses, and your

own marketing methods will help you target that customer more effectively and reduce wasted money. The goal is to determine how much it costs you to acquire every customer.

THE IDEAL PROJECT

1. What is the ideal project size for your company? \$ _____
2. How many of these are you currently doing a year? _____
3. How much of this is equipment? \$ _____
4. How much is labor? \$ _____
5. How many total labor hours is this? _____
 - ▶ Quantity of hours for Prewire? _____
 - ▶ Quantity of hours for Trimout? _____
 - ▶ Quantity of hours for Final? _____
 - ▶ Quantity of hours for Programming? _____
 - ▶ Quantity of hours for Engineering? _____

SALES AND COMPLETION CYCLE

6. How long does it typically take to convert a lead into a signed contract? Months _____
7. What is the typical net profit upon completion?
\$ or % _____
8. How many of these projects do you want to complete in a fiscal year? _____
9. Conversion rate from lead to signed contract, be honest?
% _____

THE CUSTOMER

10. Property value: \$ _____
11. Income/Net worth of person writing the check: \$ _____
12. Types of jobs they may have: _____
13. Decision influencers: _____
14. Square footage of the livable space: _____
15. Lot size: Sq. Ft. _____
16. Age of the home: Years _____

LEADING INDICATORS OF A PROJECT

17. Determining leading indicators to an “ideal” opportunity. For example, a large new home construction project is preceded by a real estate sale, a grading permit, HOA approval, etc.

18. Identify the specific neighborhoods. _____

19. Find publically available data for the leading indicators.
20. Create specific list with contact information for the External Decision makers: _____

B2C MARKETING

21. Why they want what you have. _____
22. Is this educational or a pure awareness effort? _____
23. Where do they aggregate? Do they go to: golf clubs, HOA meeting, commission meetings, church, schools, etc. _____
24. What is total market potential in your area? _____
25. What are the social media options? _____

B2B MARKETING

26. Exactly who are the top external influencers? With very specific profiles. _____
27. Do you really want to go through them? _____
28. What can you do to add value to their business? _____
29. Do they place value on or understand **why** your service is desired by the end-user, or is this a necessary evil? _____
30. What can you do to educate them on the **why**? _____

COSTS

31. Total cost (roughly): _____
32. 1%-5% is a typical marketing cost for a service company. _____
33. Can you get coop? If so, how do you make sure the coop player benefits? _____
34. Can you get partner participation? _____
35. Lifetime value?
 - a. Net profit per customer: \$ _____
 - b. Number of transactions: _____
 - c. Total marketing spend on this type of customer: \$ _____
36. Customer Acquisition Cost $(a \times b)/c = \$$ _____

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CE FEATURE BUSINESS OPERATIONS

What will happen is that you will be finding your core projects and becoming very efficient at this functionality. You will not ignore the others, but the client acquisitions efforts are primarily focused on the \$250K project. You will be amazed at what happens. *(The sidebar on p. 58 shows a snippet of the customer definition worksheet.)*

Marketing is not something you “just kinda do.” If you have developed a persona around your ideal customer, then it will become apparent where to go hunting for business.

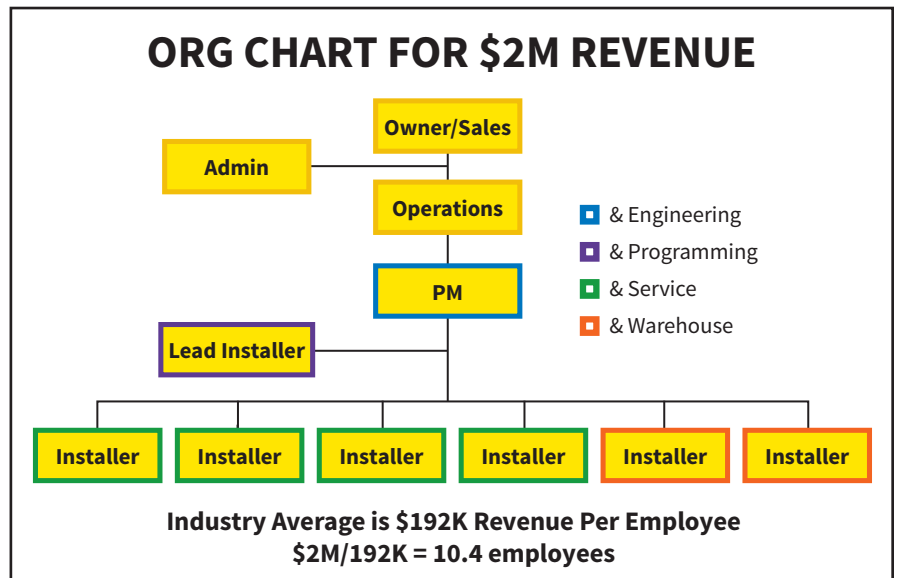
One program I produced was based on two pillars: leadership and partnership.

night with actual projects discussed. The exhibitors mostly paid for the event.

A typical marketing budget in this industry ranges from 1 percent to 5 percent, depending on how fast you want to grow. One percent is a pure maintenance effort, so don't think that will do it. Three percent will be closer to the norm. Work your vendors very hard for co-op marketing dollars; they want you to win too.

EXAMINING YOUR ORG CHART

Now for the doing it part, so follow along. Below is the typical organization chart for a CEDIA company:



This is the organizational chart for a typical \$2.5 million CEDIA-member company. The hiring pattern will usually be constrained by cash flow.

Leadership was defined as getting people to do extraordinary things, e.g. building a house that was well integrated and easy to use. Partnership meant having a mutually beneficial relationship with the team members on the project. One of the events that came from these pillars brought in an economist to give the architects, builders and designers we worked with an outlook on the upcoming high-end housing market. We also had a small tradeshow with our vendors and non-A/V vendors. The non-A/V exhibitors were countertop people, ASID, furniture vendors, CAD services, and others who were relevant to the audience. The attendees were ecstatic about the content and the exhibitors. We had 250 people that

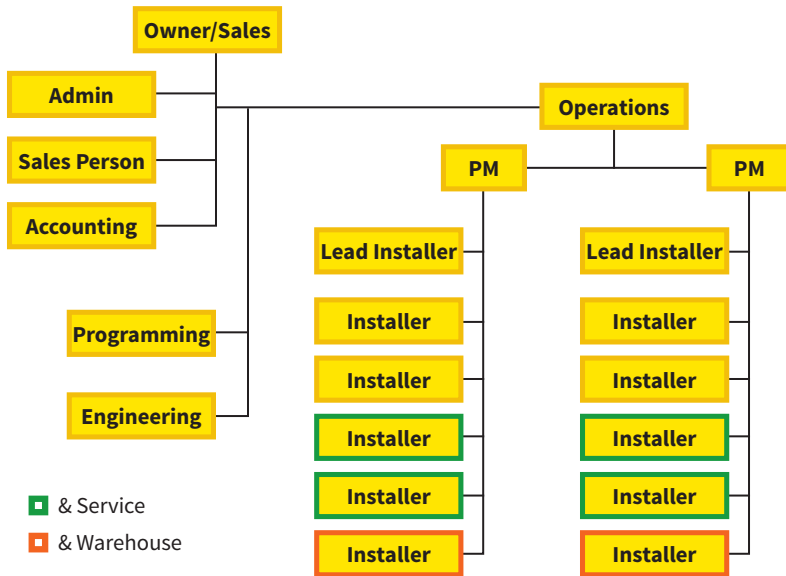
The first growth step is to determine how to grow to \$5M in revenue and expand your organization *(see chart on p. 61)* will change the chart to this:

Now imagine four of these teams with dedicated warehouse employees, delivery drivers, and a service team. One of the teams may very well be dedicated just to service.

The hiring pattern will be constrained by cash flow and contract signing. The obvious path is:

- ▷ Turn on marketing to generate leads. Think of this as hunting for business, not fishing with a big net.
- ▷ Hire a salesperson.
- ▷ A project manager needs to come online far enough ahead of the first

ORG CHART FOR \$5M REVENUE



Industry Average is \$192K Revenue Per Employee
 $\$5M / \$192K = 26$ employees

Installers should have a defined career path to lead installer and then project manager in a \$5 million custom installation company.

projects to be successful. This will vary depending on the project size. If you are charging for project management (and you had better be), then this should parallel the contract deposits.

- ▷ You should always be hiring installers. These are rare resources.
- ▷ The lead installers you have had for years should be groomed into programming and engineering.

So ask yourself about business size, popular project size, ideal customer type, marketing effort and organization hierarchy as you determine your growth path. Don't just randomly grow. Pick your battle and wage it on your terms. It is perfectly fine to pick a comfort level and stay there, but pick one that makes sense. **CE Pro**

PAUL SELF is an industry consultant and CEDIA course instructor.

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