

OCTOBER 2011

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course

In spite of all the financial and economic challenges and our fears about the unknown future, we cannot afford to stay at a standstill when it comes to addressing the challenges that lie before us. We have too much to lose.

"If you focus on the fear, you do nothing." Michelle Obama

During Financial Information Month 2011, ECCU constituents were challenged to get fired up. Fired up about personal finances, fired up about business prospects and fired up about the future in general. In this issue we bring you the Business Symposium presentations.

"So as we go forward in the ECCU let us make sure that we make the changes that are necessary to ensure that at the end of the day we have created a better ECCU."

Rawlinson Isaac, FIM 2011 Business Symposium

YOUR FINANCESYOUR FUTURE

YOUR FINANCIAL NEWS

October 2011 marks the 10th celebration of Financial Information Month in the ECCU

FIM Financial Fair – Carricou, Grenada

FIM 2011 Business Symposium



Revitalising and Rejuvenating Business Enterprises - Strategic Responses to Economic and Financial Challenges



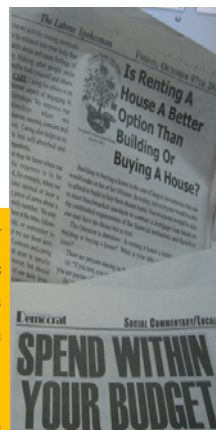
FIM 2011 Financial Fitness Walk-a-thon-Antigua



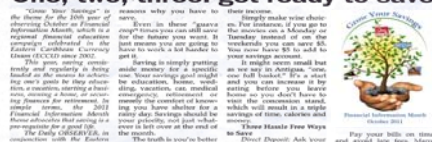
FIM 2011 School Presentations -Nevis



- Radio and Television Talk Shows
- Radio and Television Interviews
- Radio Quizzes
- Radio Financial Tips in English and French Creole



One, two, three: get ready to save



Special FIM Issue

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Extract from a presentation given at the FIM Business Symposium 2011 "Revitalising and Rejuvenating Business Enterprises – Strategic Responses to Economic and Financial Challenges" by Rawlinson Isaac, Financial Consultant, St. Kitts and Nevis.

We are plagued by concerns over the unknown...the unpredictable future. The challenges are of a new order... and demand comparable response. Something profound has changed. It was Arnold Toynbee (USA) who once described the rise and fall of nations in terms of challenges and responses. ***"A young nation is confronted with a challenge for which it finds a successful response. It then grows and prospers. But as time passes the nature of the challenges passes. And if a nation continues to make the same once successful response for the new challenge, it inevitably suffers a decline and eventual failure."***

We are here today to look at the challenges facing the ECCU and hence the theme of the symposium is about revitalising and rejuvenating businesses...providing strategic responses in these tough times.



Business Strategy and ECCU Businesses - Experiences, Challenges and The Way Forward

Who are we really in this unit called the ECCU? We are small, with a narrow resource base and a high import dependency. We cannot do anything whatsoever to influence world prices. We have a narrow savings rate; we are susceptible to natural disasters; we have a high per capita cost of running the machinery of government; and we have a high cost of infrastructure. The public

sector is responsible to a large measure for economic activities; we don't have a Steve Jobs as yet... Tourism is still our main business. We have small markets. We have high debts. The IMF is looking over, observing. That is my view of what I see.

So in addressing these issues in the context of revitalising businesses in the region, I decided to look at what is there really to revitalise. And I said, *'let me look at management,*

management is key.'

How can we revitalise management? We can migrate managers from their current myopic state where a lot of them find themselves in, we can help them to engage and increase their competencies and we can find ways of making them or what they do interesting.

It was John Kotter who tried

to make a distinction between management and leadership. What we hope we can do in the region as we move out of the current economic morass is to migrate our managers to become leaders and I think John Kotter put it well when he said that ***management is about complexity while leadership is about visioning and change.*** He went on to make the point that we are over managed and under led.

And so we learn how to manage and we manage fairly well, we are good at it. We do planning, budgeting and forecasting. We do organisation and staffing and jobs. We create silos etc. *(and you heard that from the HR expert already)*. We do controlling and solving problems and look at variances and we are very good at that.

But you know where we fail? We fail in terms of moving from that position into

leadership; which is about setting vision and looking at the big picture down the road. Which is about aligning people and creating coalitions, communicating with people and making sure that you sell and that they understand what it is you are about and where you are going. It is also about motivating and inspiring people so that they can change their values and become emotional. I say emotional because if you have a job and are not emotional about it...forget it.

And so this leads me to an expression that we may refer to as “transformation”. And we cannot move forward in the ECCU until we are prepared to move slightly away from what is referred to as change - which is doing something; to transformational - which is being something. I am telling you that makes a significant difference. We can do things differently but ***it is only when we become***

transformed and we really feel and get involved in what we are doing, then we know we will be able to make changes in the region.

I also want to look at Boards; we cannot invigorate businesses unless we know how to invigorate these boards...

In terms of competition, how do we get to make that change? We heard the expert Clare Doyle talk about marketing. But I always carry a very simple definition of marketing which I learnt in my first marketing class; Marketing 101. It is moving the right product to the right people *(find them wherever they are)* and give them the right price. So as we look at the ECCU and we move forward, the questions we have to ask are; ***“How can we keep our customers?”*** how can we exceed customer expectations by

doing that simple mathematics?

Again as we go through our processes; we have to make sure that we pay attention to our cost structures. Do we have the right cost structure? What are you going to invigorate? What are you going to re-energise? **If your cost structure is not right, if your productivity levels are less than what is expected, if you are paying too much for capital, and if your operational efficiencies are less than par then I am saying to you as we journey as the ECCU, the future is going to be a tough road.**

And this brings me to sound financial policies and financial controls. And again you cannot over estimate this. No business, regardless of the type of business you have, is going to get anywhere until you are in a position to measure what you are doing. You can have all the HR, all the advertisements etc. Until you are in a position to

measure, tangibly, what is my business doing? Where was I yesterday? Where am I today?... Where do I want to be next week?Until you have these measurements you are wasting your time.

You must have adequate financial ratios, you must have debt ratios and you must anticipate how much return you want from your investments. You must know how to be financially smart, know when to use leveraging, how much capital you need to score points on your equity. You must have good dividend policies and you must know if you are in business and your equipment is getting old, you must also know when is the best time and what policies are in place to replace plant and equipment. And when it is time to replace make sure you have the money to do it.

You must also not only invigorate the management and boards; you must also invigorate those persons

who are in effect the analysts. You have to train them how to identify the symptoms of decline and trouble. So unless you can quickly determine when profitability is declining and if you are not measuring it you have no idea when it is happening- *when sales are declining, increasing debt, decreasing liquidity, reduction in dividend, management turnover, declining market share, lack of bank support and other creditors.* Unless you are able to detect these things early, you are going to find yourself in some serious problems. So as we look at these revitalising and rejuvenating exercises, I would like to suggest to you that these are some things that you need to keep in mind.

I have a little note about re-invigorating HR and the structures. I made a point earlier about these hierarchical structures...We know we like them because

we are on the top and someone is on the bottom and so we love it. As the Trinians say *'we love it so'*. But here is the point. I would like employers to look at employees and treat them like co-workers. We have to change the mind-set, we have to change the way we have accepted these things and we have accepted them too long.

As we move through the ECCU, we are small; we do not have anything to show off except our beauty and skills. We have to know and learn how to transition our workers into owners. The point I am making here is that you don't have to be an owner; like owning shares. That's not what I am talking about. When people rush to come to work because they love it, when people rush to come to work because they are well respected, when people rush to come to work because they get a fraction of the action; then we know we have arrived. And the only way that is going to happen in the ECCU is when we change our

mind-set. Because our mind-set does not encourage innovation and all these wonderful things that we want to see happen. It is not going to happen in the current mind-set.

As we look at ECCU business, we have to talk about the governments and the role they play, because everybody must have a responsibility. **You cannot just have businesses out there, governments out there and banks out there.** We all must play our respective roles. So as we look about reinvigorating, I would like to suggest that governments of the day become a little more involved... and I say involved in terms of small businesses, in terms of providing concessions; in terms of providing subsidies, and in terms of looking at tax measures... What do I mean by that?

When you look across the region you find that a lot of

businesses are privately owned, and try ask yourself the question *'why is it that they are not incorporated?'* Then you find out that, for example, you are in a country like St. Kitts and Nevis where there is no personal income tax except that there is a levy of about 8%; so we can call that a tax for the time being. But when you look at corporate tax it is 35%. So financially a fellow decides *'boy I am not going to pay any corporate tax. it is better to stay where I am'*.

But here is where he is making the mistake. I believe that when you pool talent and capital together it augurs for a better organisation. I see my good friend here; he is a mechanic. I am sure if he takes ill next week his shop may very well be closed. How will that help him? It can't help him. What he has to learn to do is to find a partner and find some means of creating a

corporation so that the business continues. And I am a strong advocate of small business corporations. But if the tax structure is going to be prohibitive then I am suggesting to the governments of the region to reduce the corporate tax for small corporations. Come up with whatever criteria that is applicable – under 25 employees, give them a deductible for each person they employ, so that small businesses can be revitalised and they organise themselves...

I also want to look at the area of training. **We have to get to the stage in the region where we link our students, our classrooms and our curricula to the workplace.** Businesses, you need to take time off and adopt two or three students, so that they are in your workplace every week-end

learning something.

As we talk about revitalising and re-invigorating businesses in the region, we have to pay attention to these things and try our best to ensure that as we come out of this economic pain, we emerge as better citizens more equipped to deal with these challenges and create a better business environment. I believe one has to be creative...We don't have to go very far to look for creativity because everyone has a creative genius within. All we need to do is to look for it.

There is a little thing I work with that I got from management school from a management guru by the name of Victor Vroom. Victor Vroom had a little equation called $mf=ve$;

Motivational Force = Valence
(value a person places on the outcome)
× Expectancy (probability/likelihood to succeed.) The explanation is as follows – If you place value on something that has a high probability that you will succeed, it will give you all the motivational force you need to change the world.

So as we go forward in the ECCU let us make sure that we make the changes that are necessary to ensure that at the end of the day we have created for ourselves a better ECCU.

Rawlinson Isaac in his presentation also challenged ECCU banks, the ECCB, the ECIB, the ECSE, the ECHMB, the Chambers of Industry and Commerce and the Bankers Associations to do their part in revitalising and reinvigorating businesses in the ECCU.

We have an obligation to strive to be our best.

FIM 2011 Business Symposium



Linking Marketing to Financial Results

Clare Doyle, Global Marketing Director, Elementis Specialties, USA

Marketing

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.



2

Marketing



Marketing is creating, communicating, delivering, and exchanging.

3

Marketing

Revenue

(-) Cost of Goods

Gross Profit

(-) Selling & Administrative Expenses

(-) Depreciation

Operating Profit

(-) Interest Expense

Earnings before Taxes

(-) Taxes

(-) Dividends

Net Income

4

Marketing



5

Segmentation

- Segmentation is art of identifying groups of customers that are similar enough that the same product or service will appeal to all of them.
- Segmentation most frequently done on the basis of
 - Product type
 - Price Point
 - Demographics - age, sex, race, geography
 - Psychographics - lifestyle, interests, opinions

6

Segmentation



7

Segmentation

- The challenge is that these segments are defined by attributes of products or customers.
- Attribute segmentation reveals correlations between attributes and customers but does not tell you what **causes a customer to buy your product or service.**

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Segmentation

- Start close to home: you and your employees
 - Listen to your employees
 - Talk to your customers
- Reach out to business partners to create win-win propositions for each target segment
 - Understand how they characterize each target customer segment and leverage their model
 - How can your product or service enhance the perception of that of your business partner?
 - How can you combine efforts to create happier customers who want to return?

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Segmentation



8

Segmentation

- To find out what causes a customer to purchase, you need to adopt a “job” based segmentation model

What “job” does a customer hire your product or service to fulfill?

- The “jobs” that customers are trying to get done or the outcomes they are trying to achieve constitute a **circumstance** based categorization of markets.
- The critical analysis is the **circumstance** under which a customer hires your product or service, not the customer.

10

“If you can not measure it, you can not improve it.”

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Marketing Metrics

- Drive business results and focus
- Reflect business results
- Can be influenced
- Can be measured accurately
- Can be measured consistently
- Cost effective to gather

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Marketing Metrics

No.	Category	Metric
1	Profitability	Profitability: Total Dollars and Margin by Key Market Segment, year over year comparison
2	Growth and Competitive Position	Growth Rate - Market Segments
3		Market Share - Relative to Competitors
4	Innovation Management	Revenues from New Products and Services
5	Customer Management	Revenues from Existing Customers and New Customers

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Marketing Metrics

- Measure what is important
- Share the metrics - objectives and results
 - Align the organization around what is important
 - Focus activities on what is important
 - Evaluate results of activities based on metrics
- Reward the organization for reaching and exceeding the goals
- Repeat

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References

- Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, September 1975.
- Anthony Ulwick, "Turn Customer Input into Innovation," *Harvard Business Review*, January 2002 and *What Customers Want*, New York: McGraw-Hill, 2005.
- Clayton Christenson, *The Innovator's Solution*, Boston: Harvard Business School Publishing, 2003.

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**Do more than is required.
What is the distance between
someone who achieves their goals
consistently and those who spend
their lives and careers merely
following? The extra mile.**

Gary Ryan Blair



**Linking Human Resource Management to Business Results:
How Smart HR Departments Win With Business Intelligence**
Edwin Zephirin, Managing Director, Edwin Zephirin & Associates, USA

1. A seat at the table

- Long term HR objective
- The objective of every HR professional
- How do you accomplish this?

(2)

Answer

- Through speaking the language of business
 - Financial Language
 - Quantitative
 - Qualitative, to support your points
 - Business Process Language
 - Unique to your business and industry

(3)

HR is usually quality focused

- We often speak in quality terms
- Can't measure in dollar terms
- Or difficult to quantify
- Traditionally role: recruit, retain, compensate, employee relations

(4)

My premise:

- Until you speak in financial and business process terms you will never have an equal seat at the table
- HR will only be considered tactical and administrative
- You won't have senior management's true respect
- Be strategic!

(5)

2. Metrics will help you get there

- What are your strategic objectives?
 - Productivity
 - Cost management
 - Customer satisfaction
 - Employee Satisfaction
 - Others
- Develop metrics/measures that quantify goals and sell their accomplishments

(6)

3. What are the Key HR Metrics?

Principles:

- No cookie cutter approach
- Analyze company – key drivers
- Analyze business and industry
- Get to know your sr. executives needs and focus
- Set your priorities, agenda to match business needs
- Costs/savings are king
- Less (metrics) is more
- Performance improvement on all key organizational drivers

[7]

Top Ten Recommended HR Metric

1. **Revenues per FTE (Full Time Employee)**
 - Revenues per full time employee
2. **HR Dept costs**
 - HR expense as % of total Manpower expense *(do the same for other functions as well)*
3. **Employment**
 - Cost per hire; response time
4. **Compensation**
 - Average hourly rate (AHR); average annual salary
5. **Benefits**
 - Company paid portion of medical plan costs; of all benefit plan costs

[8]

Top Ten Recommended HR Metric (Cont'd)

6. **Workers Compensation**
 - Workers Compensation costs
7. **Training and Organization Development**
 - Positive financial impact per delivered training unit
 - % of internal applicants filling promotional opportunities
8. **Turnover/Absenteeism**
 - Complete cost of turnover per hourly/salaried employee
 - Complete cost of absenteeism per hourly/salaried employee
9. **Employee Attitude Surveys**
 - Employee satisfaction versus median and 75th percentile companies
10. **Labor Contracts**
 - Change in average hourly rate (AHR), other cost savings/avoidance

[9]

1. Benefits

- Medical Plan Cost
 - Company paid portion per employee
 - Total cost per employee
 - Total employee population
- Other Plans: Dental, STD, LTD, Pension, etc.
- Government mandated benefits
- Total plans cost
 - Per employee
 - As a percent of company-wide average base pay

[10]

Why Important

- Second largest company expenditure
- Comparison to product & people competitors
- Competitiveness
 - Attract and retain employees
 - Costs the company can/cannot afford

[11]

2. Employment

- Cost per hire
 - Internal staffing department
 - Requisition management, internet, agencies, open houses, campus
 - Applicant tracking system, reports
 - IT overhead, telecom, other overhead burdens
 - Reference checking
 - Executive search
- Responsiveness/Efficiency
 - Response time
 - Time-to-fill
 - Hire ratios
 - Hit Ratio – offers accepted vs. offers made
- Qualitative
 - After one year working for the company
 - After five years
 - Should be part of annual Talent Assessment Review Process (Session "C")

[12]

Why Important

- Significant company-wide expense
- Internal function vs. agencies or outsourcing
 - Cost
- Internal customer satisfaction
 - Efficiency
 - Effectiveness
- Internal talent development
 - Cost effectiveness

[13]

4. Training & Organization Development

- Training (vs. educating) expenditures
 - Cost – per unit of training delivered
 - Change – in behavior and performance
 - Impact – financial results or outcomes (ROI)
- Organization Development & Succession Planning
 - Internal candidates filling openings
 - Employee Attitude ratings
 - Viable individual development plans

[16]

Why Important

- Training, Organization Development perceived as difficult to quantify
- Training one of the first budget items to be eliminated during downturns
- Must be very specific to defend
- Sell the expected financial impact, then measure

[17]

Examples

- Sales training – increased revenues per sales rep
- Hourly workers – increased efficiency
- Managers – improved leadership, higher employee satisfaction, less turnover, increased efficiency
- Generic savings:
 - Decrease in turnover, recruitment, new hire training and learning curve factors

[18]

5. Employee Attitude Surveys

- Employee satisfaction versus
 - National/industry/vendor's medians
 - World class (75th percentile) companies
 - Prior years
- Sorted by
 - Company location
 - Departments in each location

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Why Important

- Employee satisfaction correlates to customer satisfaction
- Customer satisfaction correlates to sales
- Additional financial correlations to turnover and absenteeism

[20]

6. HR Department Costs

- Total HR costs per FTE
 - True HR costs, not non-HR costs thrown into HR budget
 - Annual admin. cost of each outsourced HR program
- HR Costs as % of total Manpower Expense
- Number of employees per HR head
- Annual admin. cost of each outsourced HR program
- Benchmark to national/industry/similarly sized companies

HR Costs: include/exclude mandated government benefits

[21]

Why Important

- Knowing your costs and how you compare gives you opportunity for “continuous improvement”
- Communicates the value of HR compared to competition and the external world in an objective and “financial” manner

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Summary

Top Ten HR Metric Categories

1. Compensation
2. Benefits
3. Employment
4. Turnover/Absenteeism
5. Training and Organization Development
6. Workers Compensation
7. Employee Attitude Surveys
8. Labor Contracts
9. HR Department costs
10. Revenues per Full Time Employee

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Top Ten Recommended HR Metrics Prioritized

1. **Revenues per Full Time Employee (FTE)**
 - Revenues per FTE
2. **HR Dept costs**
 - HR expense as % of total Manpower expense (do the same for other functions as well)
3. **Employment**
 - Cost per hire; response time
4. **Compensation**
 - Average hourly rate (AHR); average annual salary
5. **Benefits**
 - Company paid portion of medical plan costs; of all benefit plan costs

[24]

Top Ten Recommended HR Metrics Prioritized

6. **Workers Compensation**
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 - Employee satisfaction versus median and 75th percentile companies
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 - Change in average hourly rate (AHR), other cost savings/avoidance

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Summary

How to Successfully Use Them

1. Choose the metrics most important to your company
 - Select a few to start
 - The 20% that drives the 80% (most) value
 - Make sure your numbers are accurate
2. Use them as your HR metrics in Quarterly Business Meetings with Senior Management
3. Compare to appropriate benchmarks both internally and externally
4. Use Continuous Improvement

[26]

Suggested Reading HR Metrics

- How to Measure Human Resources Management
 - Jac Fitz-enz, Saratoga Institute, McGraw Hill
- Benchmarking, The Search for Industry Best Practices that Lead to Superior Performance
 - Robert C. Camp, Xerox, Quality Press
- SHRM Customized Human Capital Benchmarking Service

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Suggested Reading Finance

- The McGraw-Hill 36-Hour Course for Non-Financial Managers
 - Robert A. Cooke, McGraw Hill
- Understanding Balance Sheets
 - George T. Friedlob, Wiley
- Finance for Strategic Decision-Making
 - M. P. Narayanan, Jossey-Bass

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Suggested Self Development Course to Attend

- Financial Management for Non-Finance Managers
- Any University's School of Business

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