Business Portfolio Management

By Blair Entenmann, President, MarketingHelp!

Every business experiences two kinds of risk -- business and financial. *Business risks* are the risks resulting from the nature of the products or services you sell and from the degree of operating leverage employed. *Financial risks* are the risks over and above the basic business risk, resulting from using debt. Both kinds of risk can be planned and managed.

You should use a portfolio management approach to help you understand, quantify and manage your business risks. Portfolio management techniques are very useful in the following situations: 1) If you are a one product/service company and want to appropriately expand and diversify your business, or 2) If you are a multi-product/service company and need to allocate limited resources or improve profitability. You don't want to put all your eggs in one basket (or have too many baskets), but you need to stay focused on a few things that aren't too far from your core competencies.

To manage your business portfolio for optimal profitability, you should have two or three profit centers that are diversified and counter seasonal. To properly create, nurture, and run these profit centers, you need to have a deep understanding of your customer, your competition, and your company.

1. Your Customer: Who is your ideal customer? What products or services do they buy? When do they buy them? How much do they buy? Why do they buy? What are they willing to pay for it? The answers to these questions are key to diversifying your business risk. If you have more than 15% of your business from any one customer, you should diversify your customer base. If more than 50% of your business is in one customer type, you should diversify your market base. The loss of a big customer or a major market downturn can be disastrous for a company of any size. Do your customers (or target audience) have any unmet product or service wants or needs that are complementary or counter seasonal to your existing products/services? If over 50% of your business comes in over a four-month period, you should look for ways to diversify your business seasonality. Does it seem logical to them that you would offer this new product or service? Can you provide it at a profit to you -- at a price they are willing to pay?

2. Your Competition: What are the objectives, strategies and plans of your key direct competitors? What are the market leaders in your industry and potential industry doing? Are they retrenching into their core businesses or expanding into new ones? Are they enjoying strong profitability gains? Are they increasing their marketing spending? Do they have any weaknesses you can exploit or any strength's that you need to defend yourself against? Can you effectively compete in your chosen market niche?

3. Your Company: Is your company's current vision and mission to grow the business into something different than it is today? If it is, you need to identify your strengths, weaknesses, and capabilities to determine what products/services you can profitably provide that fit the vision. What synergies could exist with a new venture? Can you produce the product or provide the service with current resources? Is the selling season during a normally slow time for your existing sales force? Do you need to get more space or people to handle the new business? Do you have the financial resources to enter this new market?

Business Portfolio Management is like Stock Portfolio Management. You want to put your money where you have a superior opportunity for profitable growth, while protecting your capital. If one investment is under performing, another is likely to be over performing.

Owners and managers are willing to accept different levels of business and financial risk. Some will put their toe in the water before they go in, while others will "bet the farm" on a perceived "sure thing." The trick is to understand the fundamentals of your business, identify two or three primary profit opportunities, and exploit them. *Remember, don't put all your eggs into one basket, but stay focused.*

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