Paul and Mike Chaklos, the brothers at the helm of supplier company Above & Beyond (asi/30442).

BAND OF BROTHERS

The two brothers in charge of supplier company Above & Beyond have overseen annual 15% growth. However, 2008 was not kind to these brothers, and now they need a new strategic plan. Our experts are here to help.

By Betsy Cummings

PHOTOGRAPHY • SUZANNE MAPES

Mike Chaklos is just settling in and getting back to business. He's been out of the office for a week, and things seem to have carried on without the founder and president of Above & Beyond (*asi/30442*), a supplier of large-scale balloons, flags and tents based in Irvine, CA. But all is not as it seems. It takes only 15 minutes before he's broadsided by a midmorning crisis.

A distributor, waiting for 350 inflatable chairs for her client, a large computer manufacturer, is irate. Concerned she's getting the runaround from customer service, she's demanding to speak to the owner. Chaklos fields the call and appears to calm her down. But the crisis is far from over.

On this Tuesday morning in January - Inauguration Day - as the economy has all but imploded and millions are desperate for reassurance, Chaklos and his brother Paul are trying to deliver a similar message to clients.

In side-by-side desks a few feet apart, they discuss the situation, baffled at how the chairs, which need to be delivered by Friday, were shipped two weeks late from China. "The question is, did we e-mail the factory on the 29th?" Mike says. "We should have been e-mailing the 29th, 30th and 31st of December, saying, 'Where's our chairs?' I don't know that we did that."

Add to that the confusion of customs (the order will most likely sit for the next few days waiting for inspections, though Above & Beyond can't nail down a customs official to get a definitive answer), and Above & Beyond is as out of the loop and frustrated as its distributor client.

Ever since Mike founded the firm 17 years ago after sewing together a giant balloon by hand, he's been putting out fires as they crop up. But the company, with a 15% growth pattern year over year, has done nicely, and, until a dip in profits last year, has pulled in a steady return, earning sales upwards of $5 million today.

The company's on track to do more of the same in coming years, but there's a danger of stagnation ahead. Problems like the one Mike is fielding this morning represent less than 5% of orders. Most move through the company's system smoothly. Still, the few that encounter hiccups ultimately cause some of the company's 35 employees to scramble on occasion.

A crumbling economy doesn't help. And with a staff so chummy that the lines of division between management and employees have been all but washed away, Mike and Paul run a loosely managed operation. For the most part, the brothers, who have adopted a southern California style of dress and mood, work in tandem. That said, their personalities present challenges from time to time. "Mike is more task oriented and I'm more, like, free flowing," says Paul. "I tend to look at the big picture over a longer period of time."

That comment gets Mike's attention and he swivels in his chair to respond. "I think inside the box and he thinks outside," he says. Translation: "I just want to get it done," Mike says. Being more task oriented means he wants to think in the moment and sometimes gets put off by Paul's longer term analysis. "We've never stormed out of the office or anything," Mike says.

In fact, if anything, the two embrace more of a let's-get-this-out-in-the-open-and-hash-it-out attitude. Their desks, a pair of relatively organized spaces separated by only a few feet, are the first thing you see when you walk through the company's doors. They sit immediately behind the desks of two other office workers and are accessible (and accessed frequently) by any and all staff. "We could have easily moved into a building where we had our own offices," Mike says. But they prefer an open door policy with staff. "They can walk in and ask a question. We don't live in a closed door type of company."

Yet, the two admit that some of their laissez-faire management style is beginning to seep through every area of the firm. In collections, for example, outstanding invoices can run as high as $300,000; a year ago, that number was $700,000. "It got totally out of control," Mike admits.

Recently they hired part-time workers to call companies late on bills – some of which are firms that continue to place orders - and prod them to pay up. The tactic seems to be working for now. But in other areas, like sales, a loosely-run shop means sellers are easily forgiven when they bypass company protocol – running orders through the system before they've been approved by the art department, for example, or allowing companies late on invoices to place new orders.

Though Mike and Paul don't have a specific annual sales goal they're eyeing, both brothers say they'd be happy to keep the company on track for similar growth indefinitely. They've got a good foundation on which to start, our experts say, but a few changes could help turn around the company's revenue shortfalls from last year and set the firm up for continued growth in the future.

The Chaklos brothers want to create a more corporate climate for their company.

STEP ONE:
Set Some Rules

With sales over $5 million and a push for a more corporate environment, just over a year ago the Chaklos brothers decided it was time to create a company handbook. But the multi-page manual was forgotten soon after it was presented to employees. "We put policies in place but they all slip," Mike admits. For example, "we would like people to dress a certain way, but everything slips."

Rules, for the most part, are verbally delivered – and subsequently soon forgotten. More to the point, "we don't have a bunch of policies in place," Mike says. As for last year's employee manual, "I don't think anyone knows what it says anymore."

Even Mike and Paul admit they've almost never looked at it since, and aren't sure what it contains. A handbook without backing is meaningless, says Yoon Cannon, president and CEO of Paramount Business Coach, a business consultancy in Philadelphia. "You

To control costs, the Chaklos could consider pre-approving overtime.

can't enforce something you don't reference on a regular basis," she says.

And Paul and Mike know it. But with a smaller workplace and a more personal style of management, "you can't fit everybody in a mold," Mike says. Still, he adds, right now, "we're lacking accountability for positions."

Like many family-run businesses started out of a founder's home and grown slowly in a manner that embraces new staff as an extension of family, enforcement of work policies gets tough. At Above & Beyond, after 17 years of relaxed management, workers have grown accustomed to testing the boundaries (intentionally or not), taking extended lunch breaks, coming in late and leaving early, working unnecessary overtime, surfing the Internet during work hours and engaging in other time wasters that they can now easily get away with. That's not to say they're purposefully trying to take advantage of the company and its owners, but the danger of a casual atmosphere is a less aggressive workforce, experts say.

To change course, Cannon says, the owners could recirculate their existing handbook, or create another. The danger, of course, is that any employee manual, whether new or old, could be as powerless as the last one. Still, a cultural shift needs to occur if the company is to move forward with growth goals. And that requires rules, and, ultimately, consequences.

If they want to skip the more militant corporate route, Andrew Miller, president of ACM Consulting, a consultancy in Toronto that specializes in organizational efficiency, says they could make smaller shifts to start. For example, he says, rather than paying overtime hours after the fact, the company could require that overtime on every job be pre-approved. That way the owners can control how much extra they're paying to complete jobs.

When it comes down to it, neither Mike nor Paul may feel comfortable forcing such significant cultural changes. Doing so will require tough language in company-wide meetings explaining that tough economic times and continued growth in the future call for swift action, more accountability and greater consequences – including firings. If the owners aren't willing to deliver that news and such sharp changes themselves, they may need to hire a sales manager or general manager – or some other mid-level management buffer – who could make swift changes for them.

Ultimately, a strong cultural shift may cause dissent among the ranks, which is why slow, steady changes may be more effective, Miller says, than one swift cultural sea change.

By The Numbers

Brothers Mike and Paul Chaklos, the heads of Above & Beyond, have overseen consistent growth in the company's 17 years. Until last year. They admit that 2008 was difficult for their company, especially the fourth quarter. "October, November and December were super-slow because of the economy," says Mike. "But our cost of goods stayed the same and we just ate it on the sales end."

Indeed, the company took big hits to both its sales and profits in 2008, as it was forced to hold on to unused inventory that it already purchased.

	2006	2007	2008
Sales	5,780,216	6,321,343	5,047,310
Cost of Goods Sold	2,786,358	3,175,905	3,127,562
Gross Profit	2,993,857	3,145,438	1,919,748
Rent	92,310	113,566	93,971
Payroll	1,310,159	1,445,224	1,559,356
Total Expenses	2,179,893	2,318,469	2,341,834
Net Income	813,963	826,968	(422,086)

STEP TWO:
Create A Personnel Strategy

Regardless of how they implement changes, Cannon says, Paul and Mike need to be prepared, ultimately, to terminate employees who don't step in line. Of course, they should do so only after proper documentation, warnings and when all other disciplinary actions fail. But too often small-business owners can't face up to the hard truth that nonproductive workers – some of whom may be long-term employees, and even close friends of the owners – will need to be cut loose.

That can be one of the hardest things a small-business owner has to do, partly because they're scared to lose talent in a tight economy where orders need to be produced seamlessly, without hiccups from training new staff.

Online videos demonstrating how action ballons work can help to attract new clients.

In addition, finding new employees to replace old workers can be hard, although it's often easier in a poor economy. Cannon says the key is to always be recruiting. Often, a small-business owner's biggest fear, Cannon says, is being penalized for letting workers go. They've "spent years investing in training and skill development" that they're loathe to see leave the building, she says. The reality, Cannon says, is that some owners can end up replacing as much as 80% of their workers by the time they get done revamping company policies. A daunting management task, indeed, she says, but one that owners have to consider if current employees don't fit the new mold they need to construct to maintain company growth.

What makes that transition easier, Cannon says, is to always have potential recruits in the pipeline. "They need to start interviewing and have new talent replacements in the queue," she says.

STEP THREE:
Refocus Sales Efforts

More than anything, Above & Beyond needs a new culture within its sales department, says Dave Lakhani, president of Bold Approach, a sales and business consultancy in Boise, ID. The company has seven inside salespeople who generate new business exclusively from referrals or reorders. And they handle that business well. But, as Paul says, "Our product is so unique that trying to advertise to the masses is useless." He's got a point. But any company that wants to grow, particularly in a tumultuous economy, needs to find new avenues of growth to survive.

Again, reshifting the focus of the sales team and forcing them to be more accountable for their actions may be more than the owners want to take on. More to the point, owners rarely have the time to run a company and a sales team simultaneously, Lakhani says. He advises that hiring a sales manager is not only a good idea, it's necessary.

At the moment, the sales team has no goals, no quotas and no territories. "Since most of sales orders are incoming, it's hard for them to control the business," Paul says about sellers aggressively attacking territories or sales quotas.

But that's a dangerous position to be in, Lakhani says. Even companies with the most unique products are better served through a structured sales environment that includes territories and sales goals, he says. "The extent that they narrow the seven people's focus to a specific territory is the extent to which they'll grow," Lakhani says, because being required to sell within a limited space means working harder to find new and return business within that area. Again, enforcing such a major shift can create havoc and culture shock in a company unaccustomed to structure of that kind. And a team that's used to handling clients from various parts of the country and world, without regard to territory, may fear having clients taken from them when they're suddenly divvied up into geographic regions. To alleviate that fear, Lakhani says, Above & Beyond should introduce territories and allow reps to keep accounts they currently handle outside of their territories. But if an account remains inactive for 12 months, it should be moved to the manager of whatever territory it's in.

STEP FOUR:
Market Wisely

Right now, the sales team "doesn't sound like a sales department," Miller says. New business generated only through referrals is "more customer service than sales." Still, he adds, the owners are right in that inflatable balloons, flags and tents are a niche business that requires a different sales approach than other promotional products.

Not every company is looking for – or can use – an inflatable balloon to increase their visibility or drive new sales, so it's a product with a limited client base. For that reason, Lakahani says, cold-calling a wide swath of companies is virtually useless. That said, there's much the company could do to generate new business.

In the past, Mike and Paul have been frustrated with marketing and sales efforts that haven't paid off. Several years ago they placed an ad in *SkyMall*, the in-flight magazine that advertises novelty products to airline passengers. The thinking, Paul says, was that "if four million people see this, we should do okay." Above & Beyond forked over thousands of dollars to make the ad happen. In the end, "I think we got two sales," Paul says.

In another bid for business, the company tried a more targeted approach by setting up a trade show booth at the Consumer Electronics Show, the behemoth annual trade show that showcases new products from the world's largest tech companies. They followed up leads with a direct mail postcard and calling campaign. Above & Beyond secured a few orders from their efforts, Paul says, but just enough to break even. "It wasn't an effective use of our time and efforts," he says.

Some of that is to be expected, Lakhani says. "I'm not surprised at all by the failure of the *SkyMall* approach," he says. Those kind of advertising vehicles are best suited for personal and home novelty products – a pet nail clipper or personal spy camera, he says. And while passengers on a plane are a captive audience, Lakhani says, they're only "flipping through that magazine because they have nothing else to look at."

Picking out the top 100 Fortune 500 companies for cold-calling pitches likely won't work for Above & Beyond either, since a mass market approach is rarely effective with such a niche product. But that doesn't mean they can't create target markets within specific sales territories. Miller suggests that they not only cultivate stronger relationships with distributors within the promotional products marketplace, but target associations and association events geared toward companies most likely to buy balloons. For example, auto associations or parade organizations might be likely to visit the Above & Beyond trade show booth to find out about advertising value in balloons, flags and tents. "Their best bet wouldn't be to get a booth at the Consumer Electronics Show, but to target the organizers of CES," Miller says.

Using any existing or new clients, Lakhani says, they would be smart to create additional business opportunities by creating a referral incentive program with companies they already work with. He suggests that they offer an incentive – a free vacation, monetary reward, huge discount on their next order, or some other prize to motivate distributors or any end-user clients to refer additional business.

Working the numbers from, for example, 1,000 clients the company already has gives them a huge growth opportunity, Lakhani says. Take those 1,000 clients. Even if 50% are active, that's 500 people. Say 30% of those 500 give Above & Beyond a referral to a prospect. Even if only a quarter of those referrals close, that's nearly 30 new clients. Starting from 1,000, that doesn't seem like much. But, even if the promotion cost them $5,000 to run, just a few orders could cover their expenses. And it would significantly widen their client base – a base they could then put into future referral promotions.

In addition, Lakhani says, the company would be smart to create more online videos of their products that demonstrate how action balloons work, such as dancing inflatables that move by way of attached fans at their base. Any buzz online through videos that could be posted and shared through YouTube, for example, would do much to increase their search engine standings and visibility among companies searching for those types of products.

STEP FIVE:
Inspire Sellers

None of these sales strategies will work unless the company's sales team is motivated to put them into action. For the most part, sellers are eager to take new orders and work well together and with Mike and Paul. However, with little cold-calling experience, pitching new business is likely out of their comfort zone.

To motivate them to sell, Miller suggests a three-tiered commission plan that can be incorporated into the company's existing salary-plus-commission pay structure. Bringing in reorders or business from an existing client may incur the same pay that reps currently receive, while additional fees may be paid for referrals, and an even greater commission for entirely new customers.

On top of that, Lakhani says, the company would be well served by requiring sellers to identify the top 100 or 200 organizations or distributors in their territory who might want to order balloons, then coordinating a multi-tiered sales and marketing effort in their direction. Lakhani says an initial phone call followed by a direct mail piece, online videos of Above & Beyond products, e-mail campaigns and the like should follow at least once a month for a year, or until they get a response.

And, in an economy where many companies are pulling back and limiting in-person sales calls to save on travel expenses, now would be the time for Above & Beyond sellers, at least in California territories and neighboring states, to call prospects and ask for 20 minutes in their office. Face time in a down market where most selling is via the Web or phone, will make a company that much more memorable, Lakhani says.

Sellers who don't tow the line, can't perform despite aggressive efforts, or those who simply aren't on board may have to be let go, Lakhani adds. In fact, cutting the company's bottom 20% of sellers could save the company enough money to hire a sales manager who could do much to motivate those sellers who remain and boost new growth in the process.

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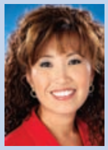
The Experts



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