The Definitive Guide to Standard Operating Procedures

The **Value**Builder System™

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SECTION 1:
Why Create Standard Operating Procedures

Does your business lack organization around basic tasks? Do your employees seem dependent on you, and could they benefit from being more autonomous? Are you wondering what you can do to improve your growing business and its value?

If you answered yes to the previous questions, implementing Standard Operating Procedures (SOPs) may be what you need to solve your problems.

What Is a Standard Operating Procedure (SOP)?

A Standard Operating Procedure is a set of instructions used to train and onboard your employees to complete a task. SOPs are the foundation of building a business that can thrive while giving you the freedom to work when and where you want.

In addition, SOPs allow you to:

- Provide your customers with a consistent experience.
- Minimize your time spent problem solving.
- Train new and existing employees.
- Build a company that is worth more to a buyer.
- Avoid or minimize an earn-out.

Let's explore each of these reasons to create Standard Operating Procedures in more detail.

SOPs Are the Foundation of a Business That's Built to Sell

Why did you start your business? Was it because you had an idea? Were you striving to become rich? Or was it out of necessity?

While these are all common inspirations for starting a business, most people choose entrepreneurship because they want the freedom to decide what to do with their time and energy.

Starting a business offers the chance to build a life of independence, but just starting a business isn't enough. Most companies are dependent on their founder, so paradoxically, many owners have less freedom than if they had opted for a nine to five. When you work for someone, you put in your time and then—unless you have a very senior job—you clock out.

Most small business owners never really leave their business. They are the ones opening in the morning and often closing in the evening. When owners are away from their business physically, most are never far from their company mentally.

The Small Business Administration claims there are more than 30 million small business owners in America. Roughly 23 million of that 30 million do not have a single employee. They are self-employed individuals like copywriters, plumbers, Uber drivers, and lawyers. They are freelancers who only get paid when they work. They are held hostage by their business and have much less freedom than if they went to work for someone else.

If freedom is your goal, SOPs are essential. A SOP allows you to train your employees to handle a task the way you want it done. You are essentially replicating yourself and allowing your business to run just as smoothly whether you are there or not.
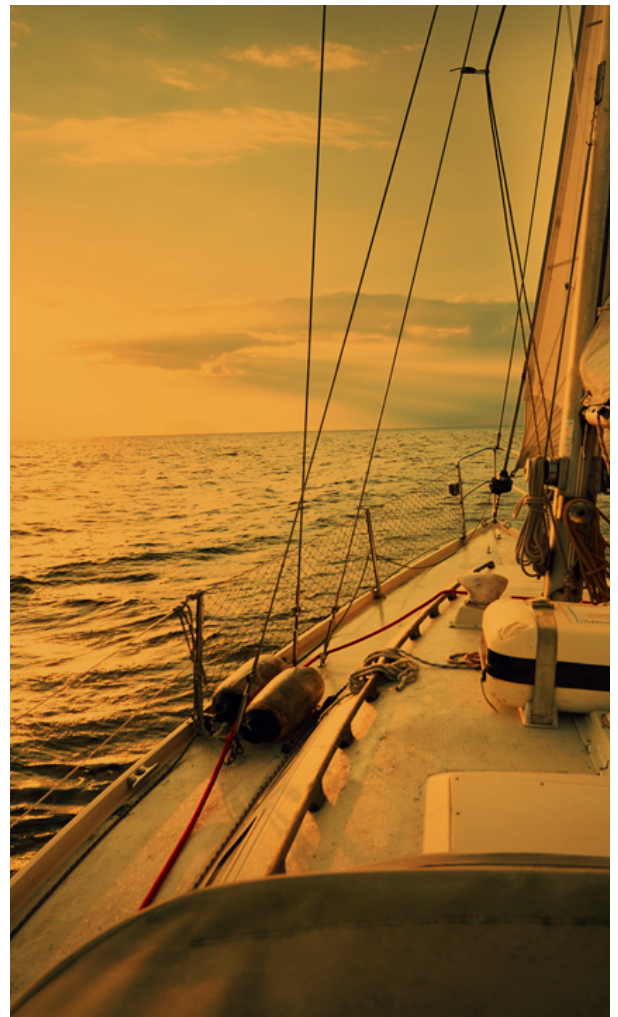
SOPs Are the Secret to Happy Customers

Satisfied customers are the lifeblood of any business. When a customer is pleased, they are likely to come back, tell their friends and colleagues, and create organic growth through repeat customers and referrals.

Now ask yourself who among your employees offers the best customer experience. For most smaller companies, the founder is the person that most consistently delivers for customers. You have the most knowledge of your product or service, have the most experience to share, and likely care the most.

That's why most customers would prefer to deal with the owner of a business. If your customers demand that you look after them, your business is going to require you to work all the time. Most founders can't or won't do that, so they empower employees to interact with customers.

It's only natural that employees usually care less and lack your level of industry knowledge. Therefore, the experience of buying from your company suffers, and customers want you to stay involved. This means the growth of your company will usually stall at a few hundred thousand dollars in revenue because there are only so many hours in any day you can personally devote to serving customers.

The secret to getting your employees to offer an owner-like customer experience is to document your expectations of them through SOPs. An SOP will show an employee how you want them to handle a specific task, which enables employees to treat customers the way you would want them to be treated. This consistency across your front-line employees means customers know what they are getting when they do business with your company, which allows you to build a brand in the mind of your customers.

SOPs Minimize Your Time Spent Problem Solving

	URGENT	NOT URGENT
IMPORTANT	I DO	II PLAN
NOT IMPORTANT	III DELEGATE	IV ELIMINATE
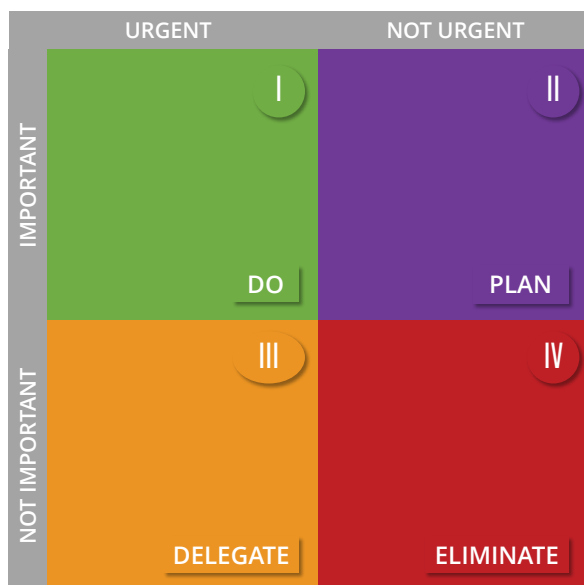
In his global bestseller, *The 7 Habits of Highly Successful People*, Stephen R. Covey provides his instructions to readers who want to emulate the number one habit of the most successful people in the world: "Be Proactive." Covey describes the importance of picking your priorities and goals and relentlessly carving out time and energy to proactively focus on your "Big Rocks."

The opposite of being proactive is spending your day reacting to situations. The least successful people in Covey's research let others dictate how they invested their time and spent their waking hours fighting fires.

SOPs allow you to pre-empt most questions your employees will have so that they don't come to you with problems. The more issues you can anticipate and document in an SOP, the less likely you will be called in to fix a problem.

Most importantly, when you invest time in creating SOPs, they act as instructions for your employees when you are not there. They can operate independently, which frees you up to focus on your most important projects, in other words, to be proactive.

SOPs Help You Train Confident Employees

Have you ever stopped to think about how your employees might be wired differently? Unlike founders, most employees do not like uncertainty. Instead, they want a sense of mastery in their job. They love the feeling of doing good work, pleasing customers, and generally feeling confident in their professional lives.

In contrast, most founders learn by doing. When they get a new piece of furniture to assemble, they throw out the instructions and start experimenting, but your employees need instructions. They crave instructions.

They want the recipe card for doing their job right. That's why SOPs can be so important for training your employees. They give your people clear instructions for mastering the main tasks that make up their jobs. SOPs build confidence from the instructions you provide, and that confidence becomes contagious.

SOPs Help You Train New Employees

Standard Operating Procedures allow you to document your instructions for new employees once. Having SOPs for new employees is critical to ensure they know your way of doing things. As your company grows, you will get further and further away from your front-line employees, and that means your message for how you may want things done is muddled.

With SOPs, you can talk directly to new employees on their first few weeks on the job and explain exactly how you want things done.

SOPs Make Your Company Worth More

When a financial acquirer evaluates your business, they are trying to understand how much profit your company will make in the future. Acquirers use a modeling technique called Discounted Cash Flow (DCF) to estimate what they are willing to pay for your future stream of profit. Rather than get into the math behind the calculation, you simply need to know that the riskier they view your future cash flow, the higher the discount rate they will apply, leading to a lower valuation.

SOPs give an acquirer confidence that your business will continue to succeed after you leave. They will see your future profits as less risky and therefore apply a less punitive discount rate, leading to a better valuation.

Financial acquirers are also looking to understand how well your company would perform with a substantial injection of new capital. They want to understand if your business has the structure to handle the increase in volume their money could provide. If your business is duct taped together with a few rules and loosely understood guidelines, they will see the equivalent of a house of cards.

By contrast, if you have invested time to build out your SOPs, an acquirer will assume your business is built on a solid foundation and will know that an injection of fresh capital should directly translate into a larger business rather than topple a shaky structure.

SOPs Help You Avoid an Earn-Out

When you sell your business, you will likely have to participate in a transition period where you work for your acquirer for a while. Suppose your future projections seem shaky to an acquirer or they view you as the lynchpin for making their investment pay off. In that case, an acquirer will put some of their offer in an "earn-out," which is a set of targets you need to hit in the future as a division of the acquirer's business.

SOPs help you minimize the proportion of your acquisition proceeds that are at risk in an earn-out by making the case that your business does not depend on you. Most owners will tell you that an earn-out feels like a jail sentence. They toil in the bowels of a giant organization where every decision they take is dissected by management.

If the idea of an earn-out sounds like a jail sentence, there is an alternative: Take your medicine up front. Invest a few weeks in the painstaking process of documenting your SOPs for doing things in your company so that you can make the argument to an acquirer that your company can thrive without you. This would mean there is no need for an earn-out, allowing you to ride off into the sunset, cash in hand.

SECTION 2:

What to Document in Your Standard Operating Procedures

One of the most common misconceptions about SOPs is that their creation relies on a grand strategic plan and requires months of thoughtful planning.

In reality, employees of small businesses need practical advice for getting tasks accomplished rather than grandiose strategies. When it comes to documenting your SOPs, stick to tactical instructions for getting things done.

At a minimum, consider creating an SOP for the following items:
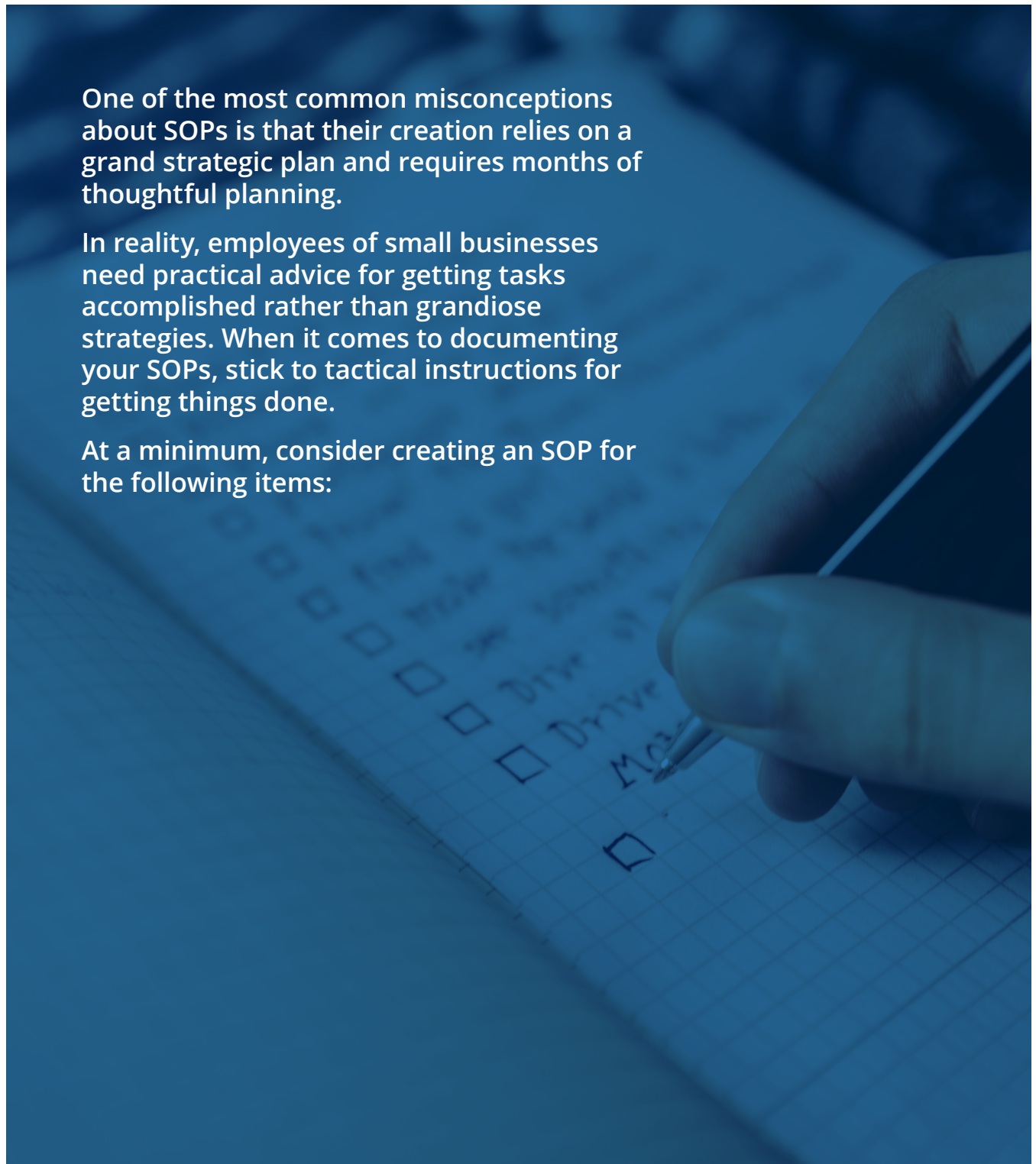
Your Way of Serving Customers:

SOP FOR YOUR FRONT OF THE HOUSE:

Restaurants refer to the place where the customer experiences their food as the "front of the house." Regardless of what industry you're in, you probably have a way you want customers to be treated in your most common interactions with them. Create an SOP for your most important moments with your customers so employees know how you want customers treated.

SOP FOR EMAIL COMMUNICATION:

Brands are built on consistent communication, so if there is a specific way you want your employees to create their email signature or a font you want them all to use, create an SOP.

SOP FOR USING YOUR COMPANY LOGO:

Like reputations, brands take years to build and only seconds to destroy. That's why it's critical your logo always appears in the same way whenever your employees use it. Create an SOP to show them how you want your logo displayed.

Behind-the-Scenes Functions:

SOP FOR ENTERING A CUSTOMER INTO YOUR DATABASE:

It is important that critical customer information is kept organized and formatted consistently, which is why you should create an SOP for creating new customers in your systems.

SOP FOR BILLING YOUR CUSTOMERS:

Cash is king for any small business, so consider an SOP for generating invoices or billing customers so that anyone can follow your process when your bookkeeper is away.

SOP FOR COLLECTING CASH:

Like billing, if you give your customers time to pay, develop an SOP for collecting receivables.

SOP FOR ONBOARDING A NEW EMPLOYEE:

First impressions matter for customers, and they are even more important for your employees. Nail the first few days of their time with you, and you'll create a loyal employee. Create an SOP for how you will onboard them considering things like how your team can set a new employee up in your payroll and employee benefits systems.

The SOPs above are not intended as a comprehensive list but rather as prompts for you to brainstorm.
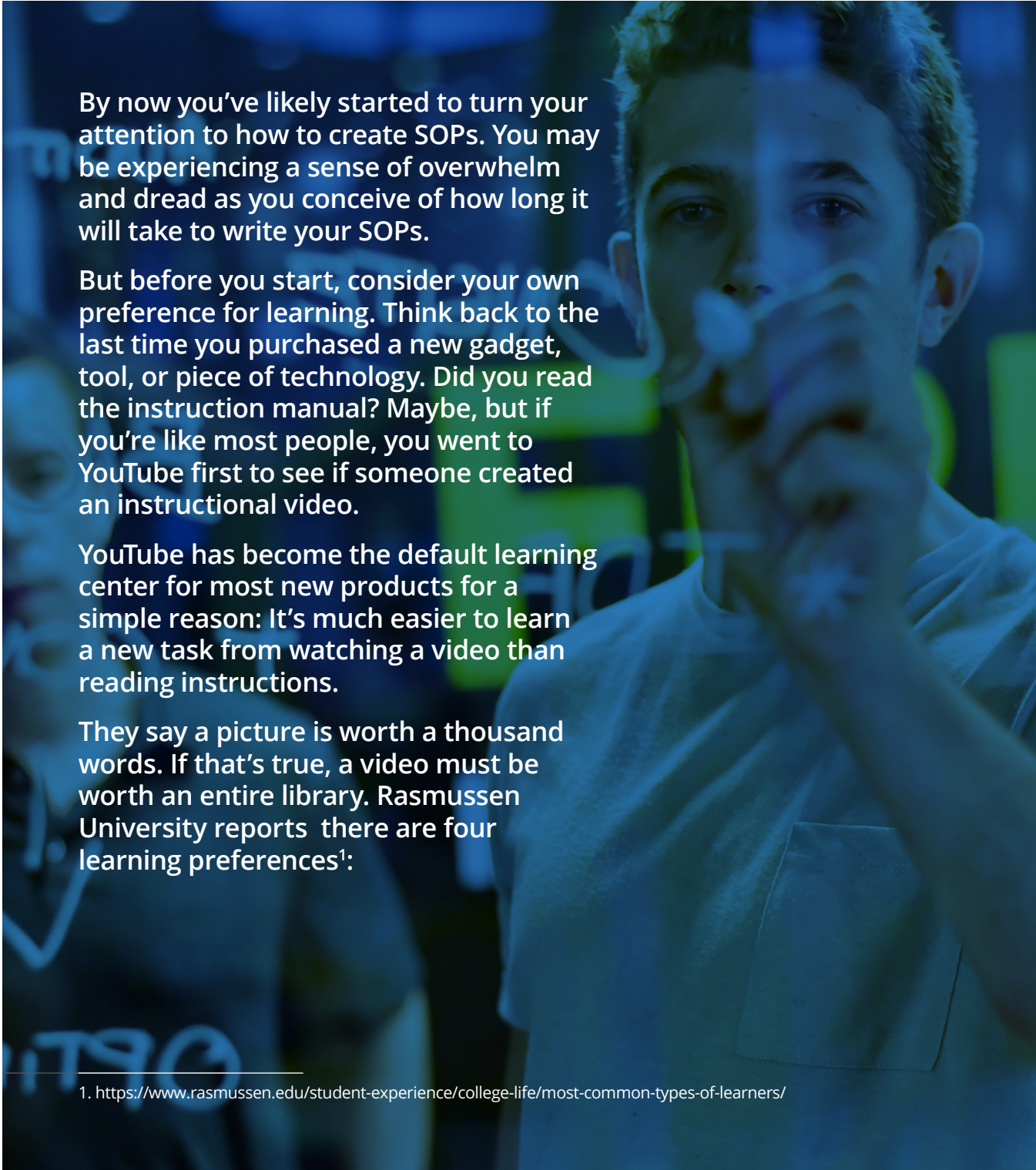
Avoid Generic Templates When Creating Standard Operating Procedures (SOPs)

Your business is unique, so avoid generic templates that lump you in with everybody else. With limited resources, you set yourself apart by offering unique experiences to your customers.

Templated SOPs, by their nature, are generic and can be used by lots of companies. With an SOP template, you're commoditizing who you are. Instead, there is a special way you approach your business, which is why leveraging templates to create your SOPs undermines your point of differentiation. Create original SOPs that illustrate how unique your company is.

SECTION 3:

How to Create Standard Operating Procedures (SOPs)

By now you've likely started to turn your attention to how to create SOPs. You may be experiencing a sense of overwhelm and dread as you conceive of how long it will take to write your SOPs.

But before you start, consider your own preference for learning. Think back to the last time you purchased a new gadget, tool, or piece of technology. Did you read the instruction manual? Maybe, but if you're like most people, you went to YouTube first to see if someone created an instructional video.

YouTube has become the default learning center for most new products for a simple reason: It's much easier to learn a new task from watching a video than reading instructions.

They say a picture is worth a thousand words. If that's true, a video must be worth an entire library. Rasmussen University reports there are four learning preferences[1]:

1. https://www.rasmussen.edu/student-experience/college-life/most-common-types-of-learners/

Visual Learners

Visual learners absorb information best when they can visualize relationships and ideas. Maps, charts, diagrams, and even essays work well for visual learners. When instructors illustrate or diagram their lectures on a whiteboard, visual learners may find they remember the information much better.

Auditory Learners

Auditory learners are all ears. They tend to prefer listening to information and to be linear thinkers that may repeat things they hear out loud. When it comes to studying, an auditory learner might remember material best if they talk about it with someone else since it will be easier to recall a conversation than a visual image of words on a page.

Kinesthetic Learners

Kinesthetic learners are the most hands-on learning type. They learn best by doing and may get fidgety if forced to sit for long periods of time. Kinesthetic learners do best when they can participate in activities or solve problems in a hands-on manner. Sometimes even being physically engaged (tossing a ball, knitting) will help them retain information better.

Reading & Writing Learners

Reading and writing learners are extremely comfortable with the written word. They prefer to consume information by reading text and can further absorb information by condensing and rephrasing it. The traditional college textbook and annotation process works well for the reading/writing learning style.

Notice how written instructions only engage one of the four learning styles, whereas a video engages the three most prevalent learning styles: With a video, a visual learner can see your directions on screen, an auditory learner can hear your instructions, and a kinesthetic learner can learn by doing the task as you show them on screen.

That's why employees are 75% more likely to watch a video than read a document, email, or other written source.[2] Sixty-nine percent of employees say they would rather learn a new skill from a video than a written document.[3]

These data points are compelling on their own, but consider the context your employees grew up in. If you have people under 40 on your team, they grew up in an era where YouTube has been a far more dominant medium than the local newspaper.

Younger people today spend more time watching videos on TikTok than they do reading books. Video has become their dominant medium for consuming information. The average attention span of a millennial is about 90 seconds, and by 2030 they will make up 90% of the workforce.

And it's not just millennials who prefer video. Most of us would rather watch a quick video than pour over a detailed set of written instructions, and viewers remember 95% of a video's message compared with just 10% when reading text.[4]

Even better, shooting a quick screen flow of you performing a task on your screen is infinitely faster than trying to create a written guide for employees to follow. Video is faster to create and easier for users to absorb, which leads to higher adoption rates.

Therefore, instead of writing up your SOPs, use video as your primary medium for explaining how you want things done.

2. https://www.panopto.com/blog/5-facts-you-can-use-to-make-the-case-for-video-in-your-learning-development-organization/

3. https://www.globenewswire.com/news-release/2019/12/03/1955580/0/en/Employees-Prefer-Video-for-Learning.html

4. https://www.popvideo.com/blog/looking-at-the-facts-why-video-content-has-the-highest-retention-rate

Getting Started

You've likely heard terms like "Six Sigma" and "ISO 9000," which often serve to complicate the process of creating SOPs. While these programs have merit in larger businesses, they are often too complicated for small companies, which leads many owners and managers to go without SOPs.

Rather than spending days planning out a complicated workflow of interdependent steps, simply record a video of how you want the task completed. Whatever you do today works; it got you to where you are now. Simply shoot an instructional video of the way you want it done; it does not need to be perfect.

Once you have a rough video, break the SOP into steps. If it is an SOP that employees complete using cloud-based software, a good rule of thumb is to create a step for each new screen that you load in demonstrating your instructions. Also create a new step when an SOP involves passing the baton from one person to another.

Keep Your Standard Operating Procedures Short

TikTok limits videos to three minutes. Twitter caps posts to 280 characters. We live in a time where less is more, and our attention spans have shrunk. Therefore, when creating SOPs, aim to make short videos of less than two minutes in length.

Show your employees how you want them to perform a specific task, and if you need more than two minutes, break your instructions up into a few shorter video steps.

One Touch

The best SOPs are structured so that an individual only touches the process once. If a process involves hand offs from person A to person B and then back to person A, try to streamline it so an individual only needs to touch a process once.

No Double Data Entry

If an SOP requires entering data, make sure that a single piece of data, or field, is only populated once and by a single person. If you can prepopulate data from another system or procedure to avoid data entry, do so. If the same information needs to be completed more than once or by different roles, you expose yourself to human error and inconsistencies.

Clear Roles & Responsibilities

When designing SOPs, make sure it is clear who is responsible for each step. A good rule of thumb is that a step should never be "owned" by more than one person or role inside your company. If you have a step that involves multiple people or roles, break the step into smaller steps so that each step has an owner.

Standard Operating Procedures Should Be Available Where Employees Need Them Most

Gone are the days when you could hand a new employee a binder and feel confident they would learn their way around. Many employees have moved to remote work permanently, and most of your team likely work from home at least some of the time. This makes storing your SOPs in a binder impractical.

Ideally, your SOPs should be cloud based and appear where your employees do their work so that they can access them just in time without having to sift through a massive Google Drive or Dropbox folder.

CONCLUSION

Whether you are trying to implement organization around basic tasks, enable your employees to be more independent and less reliant on you for problem-solving, or are just looking to improve your growing business and its value, the answer is in creating Standard Operating Procedures.