

PART I

PROFITS for Sustainable Growth

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CHAPTER 1

Achieving a Profitable Business

Life is either a daring adventure or nothing.

—Helen Keller

On a Japan Airlines flight to Tokyo, I sat next to Thomas Hewitt, CEO of Tucker Airparts. As the plane reached cruising altitude, Thomas stretched contentedly and began telling me about the purpose of his trip. He was on his way to Tokyo to meet with the owner of a holding company for a group of air carriers and related services. These subsidiaries were potential buyers of Tucker's products: reconditioned and rebuilt aircraft, avionics, and aircraft instruments.

Thomas sipped his drink, becoming thoughtful as he related how his company's fortunes had turned. Tucker's sales were falling faster than the industry average in the current difficult

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market. Thomas attributed the downturn to competition from companies overseas, compounded by the decline in value of the dollar.

“This potential customer in Tokyo might be just the answer to Tucker Airparts’ financial problems,” Thomas continued. He confided that his company had barely broken even in each of the prior three years. In the preceding 10 years, profits had grown reliably every year to an all-time record high five years ago. “Fast-forward to last month,” he admitted wearily, “when the bank declined our request to renew our loan and I started looking for new markets.”

Thomas had tried to persuade his skeptical business partners that global expansion, especially an aggressive move in Asia, would offset declines at home while paving the way for future growth. Thomas hoped to convince his partners by returning from this trip with an important new customer’s first large purchase order.

We spent the next couple of hours talking about challenges he was likely to face in a new market. How would Tucker Airparts localize its solutions for customers in this region? What about distribution channels? How would Tucker decide what to build instead of buy, or keep rather than outsource?

Somewhere over the Pacific Ocean, we realized we would probably arrive at our destination before we could even think of all the questions and possible answers, so we decided to continue the conversation in Tokyo. When we met a few days later at Bar Guapos, Thomas seemed troubled and asked if I had business experience in his industry. Though I did not have a client in the aircraft industry, I had recently retained a new client in the shipping industry who was also losing market share and considering expansion overseas.

“At this point,” I said, “she doesn’t have resources in Asia, either. She is weighing whether to hire new people in an unfamiliar culture and she’s unsure if this expansion will generate sufficient income from the investment required for hiring and training.”

Thomas nodded and replied, “My partners have that same concern. We can develop the technical capacity, but it’s not

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available now. They see the obstacles, while I view this as a big opportunity, especially if I can close the deal this week.”

He continued, “Of course we’ll need to hire someone in Tokyo to handle people issues—someone who knows local laws and the Japanese culture. It’s important to have a local presence for Tucker Airparts—*critical*, really, in my view. What downside do you see in the investment if this new customer wants to work with us?” he asked me.

I considered the reality of Thomas’ situation as he described it thus far, his global ambitions and especially the difference of opinion with his partners. “I’m just not sure,” I replied. “I need a lot more information, and, more important, so do *you!*” Thomas agreed and I asked, “Have you noticed any relevant trends in the Japanese market, especially among your competitors based in Asia, that suggest an opportunity for Tucker to succeed here in an acceptable time frame? Might this potential customer give both of you an advantage by being your partner *as well as* your customer?” I asked. “Perhaps this could save you from having to build the entire business in this new market from the ground up.”

He thought about this and replied, “I guess I viewed this primarily as a lucrative sales opportunity. Their companies have large budgets for the products and services my company provides. They also want to have close business connections with a U.S. company.”

Before returning to the United States, Thomas had a series of meetings scheduled with the holding company’s CEO and the general managers of the key subsidiaries. He wondered whether the discussions should turn toward developing a partnership and creation of a strong global solution encompassing air transportation and services, aircraft, parts, and instruments. “You know,” he said, his enthusiasm returning, “the client might be open to a partnership that fits their own global market strategies.”

We talked further about the high costs of customizing for the Asian market and the distraction it would cost him personally. He soon realized that by proposing a partnership, Tucker Airparts could negotiate from strength and be more valuable to the prospect. Previously, Thomas had not considered the costs of

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expansion, believing that good sales automatically result in profits. He now recognized that he could attain profitability faster by reducing or eliminating costs entirely and sharing the risk with a well-positioned partner.

WHAT DOES THOMAS, CEO OF TUCKER AIRPARTS, HAVE TO DO WITH YOU?

Why am I telling you about Thomas? There are people like Thomas in businesses everywhere. Perhaps you are dealing with great ambiguity and change in your marketplace. As an entrepreneur, you may find that almost every decision has major financial and operational consequences.

Sometimes, like Thomas, you might be uncertain of the steps to take to improve your business. Tucker Airparts experienced 10 profitable years, but barely broke even the last three years. Thomas is personable, intelligent, and committed to his business. He seems to do everything right. He thought he had found an answer, but a few timely questions helped him grasp that he was about to run his engine right off the track.

While you may identify with Thomas's predicament, you have the opportunity to avoid making serious mistakes. That's because you can learn from successful companies that have already invested years and millions of dollars struggling through situations that confound resource-constrained entrepreneurs. These companies devised processes for taking the right path into the future and avoiding common pitfalls.

Run Your Business Like a Fortune 100 provides seven principles (PROFITS™) and some tools for evaluating your business and making tough decisions. They have been tested by companies that stand among the world's largest and most respected. By using this approach, you ask yourself essential questions and take actions that result in attaining loyal customers. If Thomas had used these principles and tools prior to his visit to Tokyo, he would have had a clearer idea of whether his potential client was the right solution for Tucker Airparts' future.

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YOU ARE AN ENTREPRENEUR

Owning a business is difficult. Like climbing a mountain, you prepare, you advance, and sometimes you fall back before you can begin climbing again.

Your business demands your blood, sweat, tears, and finances. When business is good, it's very good. You love the natural high it gives you. Your brain keeps clicking and the world is a great place. You also obsess about achieving your goals, keeping your commitments, and listening to the constant conversations in your head about new ideas and all the responsibility you bear. Like Thomas, you may be searching for new solutions when the tide turns and your profits come to a standstill.

Perhaps you now have to deal with a competitor's new product on the market that is stealing your market share point by point. Maybe a valued employee leaves after you've invested \$10,000 in her training and confided in her about your most exciting ideas for next year. Your most reliable supplier discontinues a chemical you need for your product line, and customer demand is in the triple-digit range. Business life, even as we strive with dignity and class to succeed, is usually messy and inconvenient.

Did you ever think that a big company like one of the Fortune 100 would have everything it needs to deal with every problem? Fortune 100 companies are big and have other divisions to absorb the loss of a product or even a market. They have more people and can switch gears quickly. They have the money for software to streamline processes easily. Many more Fortune 100 companies than you might think, trip over their own bureaucratic complexity than benefit from it. With many layers of management vying for support and having to approve changes, large corporate entities may have trouble delivering results, adhering to time frames, and trimming costs. And they may be slow to meet sudden competitive challenges.

Similar to reaching the summit of a mountain, attaining peak profitability is exciting. Yet it is difficult to see the other side

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of the mountain when you are climbing it. Like a successful mountaineer, you have a sense where the terrain may be most treacherous and you arrive at these places with as much information and as many tools as practical to manage whatever you find on your descent. This book reveals what other successful entrepreneurs grasp as they get to the other side, find another peak, or zigzag to the next mountain. The quest for profitability seems never ending; no one model is perfect and every company is distinct.

Of course, you are the best judge of what will work for you and what won't, since no one knows your company as well as you do. Throughout the book, you will find questions you can ask to challenge your thinking and customize for your business.

- How can you grow more profitable in the current turbulent and competitive business environment?
- How can you replicate award-winning best practices of Fortune 100 companies to achieve integration, profit, and sustainable growth?

ENTREPRENEURIAL OBJECTIONS TO CORPORATE SOLUTIONS

People often say they prefer the collegial, friendly climate of smaller companies. Great ideas can percolate and become reality quickly in these environments. Many small business entrepreneurs left large companies to start their own. Jim Kravitts, previously a senior vice president of a large consumer goods company, is now CEO of a company that designs shipping containers. He states, "You just couldn't get anything done at my former company. There were too many layers, too many approvals. . . . The company was just too big, and my boss got annoyed when I asked his boss a question. My company is different. Anyone can speak to anyone else, and that's how I like it. I don't want to become bigger."

Of course, some owners and CEOs of these small and medium-sized businesses may erroneously believe their

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companies are too small to adopt the strategic, operational, and people processes of larger corporations. John Smarts, a former CFO, whom I spoke with at an industrial construction company, summed up this concern when he told me, “The expense, people resources, and time do not justify the corporate processes.”

My experience tells me otherwise. In my initial job interview at Bloomberg L.P., the first question asked of me was how to design and adapt the “best practice” talent management systems of large, successful corporations without changing Bloomberg’s small company culture. During my tenure, I learned that a growing and profitable company could value what works at larger firms without changing its open, fast-moving culture. At Bloomberg, where most people do not have titles, where there are no private offices, and where people are equally accessible at all levels, the system works.

With a goal of less than six-week cycles from design to implementation, results included improvements in many processes throughout Bloomberg L.P., as well as a new global sales process and new training programs within every division. There was no fanfare, and there were no big announcements about new initiatives. We just did the work. What I learned during this challenging and exciting time inspired me to write *Run Your Business Like a Fortune 100*.

While “big and profitable” is often associated with bureaucratic, slow, and political, it does not have to be that way. By reducing large corporate practices to their essence, many small companies can now integrate change faster, operate with little bureaucracy, and become more profitable than their more sizable competitors.

WHAT WILL THESE CHANGES COST?

Sky High is a distributor of party supplies to party goods stores. The company’s sales volume increased by 5 percent between 2007 and 2009, while profits skyrocketed from \$2.6 million to \$5 million. The owners of Sky High attributed the whopping \$2.4

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million increase to adopting and integrating large corporate best practices into its existing processes.

In 2007, Mark and Judy, co-founders of Sky High, wanted to improve the efficiency and effectiveness of their company. Having owned their business for a few years, they were comfortable with the business basics that generally tax the mental and physical energy of newly minted entrepreneurs.

They contemplated possible options for business enhancements. For example, they could reduce the prices of their party favors, they could purchase their own manufacturing equipment for key products such as balloons, they could design items for new markets, or they could continue business as usual.

In 2008, Sky High decided to adapt a few large corporate practices to find the most profitable enhancements for their company. First, Sky High employees learned more about their customers' needs. In the process, they discovered that Sky High's retail consumers tended to buy either basic or custom items. Next, Mark and Judy segmented their customers and reconfigured many of Sky High's practices to align to these purchase patterns. Along with a new pricing strategy, Sky High restructured certain processes such as logistics, sales, and vendor relationship practices. As they learned more about large corporate processes, Mark and Judy initiated support mechanisms that included conducting frequent review meetings to keep Sky High focused, monitoring progress toward goals, and establishing basic performance measures for their 70 employees. As employees gained a better understanding of the party goods business, their commitment to the company strengthened. Employee accountability increased markedly, with employees taking greater responsibility for adhering to goals and time lines.

It is important to note there is nothing extraordinary about Sky High. Mark and Judy simply wanted to improve their business. They revisited their assumptions about their customers. Had they made a change such as merely reducing a price point, this probably would have caused confusion for Sky High employees and their customers. By adapting large corporate business practices with no financial investment, Sky High was

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able to find untapped wealth. For Sky High, this resulted in doubling profits.

WHY IS RUN YOUR BUSINESS LIKE A FORTUNE 100 IMPORTANT TODAY?

Formerly profitable small and medium-sized companies are losing revenue and market share today due to the easy entry of global competitors into their industries. Countless products and services are now commodities, particularly in the computer, financial, and customer services arenas.

Scores of members of Daniel Pink's "freelancer generation" in his book *Free Agent Nation* began businesses in the late 1990s and at the start of the new millennium. His book chronicles a variety of people, many previously employed in traditional work settings, who looked for work that was more profitable and offered alternative work arrangements. Now they, too, are looking for ways to enhance their businesses and deal with global competition.

According to Jim Collins, author of *Good to Great*, "good is the enemy of great." We must continuously enhance our businesses and offer customers value-added products and services that are better, faster, and cheaper than those of our competitors. Good is just not good enough. And, because we are profitable, we may not be as observant as we can be as the global marketplace shrinks beyond our peripheral vision. Though we may be aware that change is happening, we do not always know how quickly this affects our business.

Lou Gerstner stated when he became CEO of IBM in 1993 and the company was losing billions of dollars, "Transformation of an enterprise begins with a sense of urgency. No institution will go through fundamental change unless it believes it is in deep trouble and needs to do something different to survive."

An example of a fundamental change for businesses resulted when the dot-com bubble burst. Global connectivity became a commodity. To use Malcolm Gladwell's term, the *tipping point*

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for worldwide connectivity arrived and we found ourselves with a superabundance of global fiber-optic cable networks. Now all you need is a computer with the capability to connect to the Internet, and you are ready to explore information to your heart's content.

Opportunities abound for those of us who want to expand our businesses into the emerging markets—or within the United States. There are opportunities for those of us with mental and physical challenges that public workplaces may view as liabilities. There are even opportunities for those of us who start businesses with extremely limited resources. Businesses can out-source just about anything, including accounting and payroll services, supply chains, day-to-day operations and a variety of marketing, human resources, and communication expertise. In this way, big companies can act small and *small companies can act big*.

There is also a downside to having so many choices. As Thomas Friedman states in *The World Is Flat*, “we have to sort out what to keep, what to discard, what to adapt, what to adopt, where to redouble our efforts and where to intensify our focus.” The implication is that unless we do this well, we will fall behind.

With more options, we also have to make decisions faster. With so many of us striving and thriving in today's business environment, *it is difficult to catch up once you fall behind*. When the mantra of the day is “you snooze, you lose” and most businesses are dancing as fast as they can to merely keep up, there may be trouble ahead.

Small companies must use everything they can to succeed. In his recent book, *The Strategy Paradox*, Michael Raynor says this well:

The external environment in which we find ourselves is very uncertain, where changes in regulations, the economy, competitors' behavior, customer preferences or new or disruptive technologies could each, or in combination, dramatically change the operating landscape. The ability to take bold action with urgency, while maintaining strategic flexibility has never been more important.

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BOOSTING PROFITS NOW

Run Your Business Like a Fortune 100 is your tool chest for moving up the business elevator of prosperity. As an entrepreneur, your goal is to boost profits now. You do this by making strategic decisions that keep you focused on *only* your highest priorities with the biggest returns on investment.

You'll discover how to do this with the seven PROFITS principles as I introduce you to my world. I reveal how you, an ambitious entrepreneur, can apply Fortune 100 best practices and quickly boost your profits now. Although a variety of principles may help promote your business success, many entrepreneurs find these seven PROFITS principles to be the *80 percent factors*; that is, they are the solid foundation you need for running a profitable, well-integrated business. The other 20 percent of your success comes from what your company contributes uniquely to your customers. These principles will help you focus your thinking, manage more effectively, and operate your small or medium-sized company with greater efficiency. This includes knowing the warning signs of possible problems common in smaller companies.

PROFITS is *not* a framework or model. It is a convenient reminder of seven principles you should follow when making decisions about activities or actions designed to increase your profitability. Though they are simple to memorize, you may find the principles challenging to apply. For this reason, I provide numerous examples of companies that vary in size, industry, and location that use the principles successfully. You will soon see that you *can* run your business like a Fortune 100—without the complexity, bureaucracy, or expense.

P *Position Only for Growth*

R *Reality*

O *Obtain Vital Information*

F *Flexibility*

I *Integration*

T *Test and Revise*

S *Steering the Company*

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The first principle, *Position Only for Growth*, refers to profitability, expansion or other measures that define success in your industry. This principle applies to both profit-making and non-profit organizations that are committed to growth. As you apply this principle, *Position Only for Growth*, you gain clarity about your business and consistency in how you evaluate possible directions for moving forward.

Reality, which I define as a focus on what is happening *today*, concentrates on difficult issues caused by the emergence of global competitors and disruptive changes that can occur in any industry. Examples show you how recognizing and facing critical issues can save a business under siege. By remaining alert to potential difficulties and aware of all your options, you can avoid traps and anticipate future threats.

Obtain Vital Information reminds us that although we need data (and many of us love all the data we can get), many times we have too much of a good thing. You will meet entrepreneurs like yourself who learned how to gather and sort the right amount of the right information to gain knowledge about their customers and minimize risk. As you practice this principle, you will learn how to recognize and manage the valuable information that is most pertinent to your customers.

Flexibility focuses on the ability to adapt and shift gears without forfeiting your purpose and mission. The companies showcased learned to develop flexibility within structured processes that inspired greater creativity and enhanced their customer solutions. As you apply this principle, you will broaden your ability to provide customers with innovative approaches for expanding their businesses—along with your profits.

Integration, the linking of all aspects of your business, provides an opportunity to analyze your entire business in the context of a jigsaw puzzle. The examples demonstrate a lockstep approach to align and foster congruency within your company. Practicing this principle will guide you in curtailing unnecessary activities, adding cohesiveness to your projects, and accelerating your profitability.

The *Test and Revise* principle refers to the scope of your business and the strategies you have in place. Nothing zaps a

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company's energy like scope creep, which denotes the tendency companies have to slowly but surely take on projects tangential to their purpose. The inevitable result is loss of focus. The examples demonstrate how you can maintain your range of control when you modify your strategy based on changing customer requests. You will learn practices to stay within cost, time, and process constraints as you purposefully flex in the middle of a project.

Steering the Company is the principle defined by the effective and efficient interaction of people working in a collaborative, unified and organized business environment. These interactions are the key to ensuring the coordination of all aspects of your company. This includes your company's culture and ways to identify the dysfunctional behaviors that impede flexibility, adaptability to change, and effective relationships. The small and medium-sized businesses highlighted apply best practices of Fortune 100 companies that excel in defining clear roles, responsibilities, and accountabilities. Your application of this principle will inspire you to consider and apply specific actions to create a motivated and aligned organization of people you can rely on to heighten trust in relationships throughout the company and with your customers.

In Part II of this book, we build on the foundation of the seven principles with the tool kit for *Run Your Business Like a Fortune 100*. These tools are the means for analyzing your business within the context of your market, your competitors, and your customers. Knowing your ideal customer profile, you avoid the anxiety that comes with uncertainty and the fear of turning a customer away. Your company will have the tools for achieving profitability and for meeting your needs and your customers' needs with a relaxed confidence and aplomb.

The Business Reality Change Model raises the bar for peak performance in the small and medium-sized company. This model employs a systematic, structured yet flexible approach for evaluating your business and builds upon all seven PROFITS principles. You will learn the critical thinking underlying the Business Reality Change Model and comprehend how a business

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of any size utilizes the model in the business planning process. The model provides you with specific action steps for developing, monitoring, and reviewing goals.

The tools for performance and talent management take the mystique out of complicated people processes and leadership. The corporate complexities of people processes, including employee competency designs, performance management, employee/leadership development, and succession planning, become straightforward and easy to understand. In performance and talent management, small and medium-sized businesses can succeed in ways that are more difficult for larger enterprises. The combination of all these tools will significantly increase your company's efficiency, upgrade your talent pool, and enhance customer relationships.

The Consultative Dialogue (CD) is the tool for promoting continuous improvement and communication throughout your business. Dialogues include performance reviews, talent reviews, weekly updates, quarterly strategic reviews, and ongoing best-selling products updates. As you examine several examples of companies like your own, you will learn how to hone these tools and view them as critical elements of your business. This is important because when you have essential information about your company within your grasp at all times, your business acumen and performance soar.

What to Do Right Now!, the book's finale, answers the question, "What can I do at this very moment—right now?"

After learning the seven PROFITS principles and the tools for boosting profits, how can you advance your business from *just* being successful to becoming a model of peak profitability? Your goal as the book draws to a close centers on a single powerful idea: *Invest in transforming changes to the business that are both high priority and provide a high return on investment.*

What actions can you implement to sustain growth and increase profitability? The seven principles (PROFITS) and the tools presented in *Run Your Business Like a Fortune 100* challenge you to learn about the best practices of large company

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processes and how to use them in your successful small or medium-sized business. Get ready to ask yourself penetrating questions, reading examples of many companies that learned important lessons on their journey to success, and then, as the saying goes, “take what you like and leave the rest.”

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