Additional Praise for *Scaling Up*

"There is no one in the business of the business world like Verne Harnish.

"Unlike all too many authors and gurus who are obsessed by statistics, followers of the latest trends, and seekers of celebrity, Verne is firmly centered on the success and well-being of business leaders, who respect, trust, and benefit from the thinking, assistance, and advocacy of this passionate protagonist of our global business community.

"Verne is genuinely devoted to the business challenges and ambitions of his vast population of loyalists. A day doesn't pass without his instant response to requests for help. He has an uncanny ability to connect businesses with reliable resources who can make invaluable contributions to their success.

"Now, Verne has published a new book filled with timely insights about the benefits and problems associated with scalability. For everyone who is curious about barriers to growth; concerned about what's around the corner; or suffering from unrelenting 3 a.m. nightmares about their businesses' sustainability and that urgent need for an aggressive new growth strategy, this is a 'got-to-read-right-now' book from today's compulsive storyteller of business content, Verne Harnish."

— Robert H. Bloom, strategist and author of *The Inside Advantage* and *The New Experts*

"Scaling up is every entrepreneur's dream — and nightmare. Hypergrowth is terrifying, and it's most often success that kills great companies. This book goes way beyond advice, offering specific habits, processes, and outlines to ensure that growth is the beginning, not the end, of success. Nobody understands the day-to-day reality of hypergrowth like Verne Harnish, and his book is full of the tough love you'd want from an outstanding mentor: fully aware of the challenges but determined to overcome, not duck, them. With great structured thinking and not a word wasted, highly appreciative of the value of time, and immune to sentiment, this book will help anyone determined and smart enough to follow its advice."

— Margaret Heffernan, serial entrepreneur and author of *Willful Blindness, Women on Top,* and *A Bigger Prize*

"Delivers the practical lessons that most B-schools don't. If you want to grow *your* business faster, buy *Scaling Up*, turn to Chapter 14, and read 'The Power of One.' Not next week. Not tomorrow. Now."

— John Mullins, professor of entrepreneurship at London Business School, and author of *The Customer-Funded Business, The New Business Road Test*, and (with Randy Komisar) *Getting to Plan B*

"*Scaling Up* is a blueprint for building a growth company. With this book, Verne has pulled back the curtain on how the fastest-growing companies in the world fuel their growth. *Scaling Up* gives you an insider's view into the inner workings of the most successful companies on earth. A must-read for an ambitious entrepreneur."

— John Warrillow, founder of The Sellability Score and author of *The Automatic Customer: Creating a Subscription Business in Any Industry* and *Built to Sell: Creating a Business That Can Thrive Without You*

"I didn't think it possible to discuss Strategy and Cash in the same book — or People and Execution in the same book, for that matter — but *Scaling Up* deals with all four topics in a compelling way. Verne Harnish and team have found juicy examples and simple rules that will help any growing business avoid costly mistakes. A great read for entrepreneurs and anyone trying to be a personal engine for growth in any organization."

— Richard A. Moran, CEO of Accretive Solutions and author of *Navigating Tweets, Feats, and Deletes*

SCALING UP

How a Few Companies Make It... and Why the Rest Don't

Verne Harnish
and the team at Gazelles

Gazelles
GROWING LEADERS - GROWING COMPANIES

Keep on learning and growing!
Verne Harnish

Gazelles Inc.
Ashburn, Virginia

SCALING UP: How a Few Companies Make It...and Why the Rest Don't

Published by Gazelles Inc., Ashburn, Virginia
www.gazelles.com

First Edition
ISBN 978-0-9860195-9-3

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

THE DEDICATION

A city with scaleups, moves up; a country with gazelles excels.

To the leaders who scaleup companies — and their families and teams that support them. You are the engines of our economies and the source of our freedom.

THE ACKNOWLEDGEMENTS
Thank You!

First, we want to thank the thousands of CEOs and executives who have utilized our open-source tools and provided input on how to improve them and their application to scaling up organizations. Your contribution to the community of "gazelles" is greatly appreciated.

Business Leaders

Several of these leaders and their companies are highlighted throughout the book. Thank you for openly sharing your stories and lessons learned so that we might all benefit, specifically: Rob Banks, Jeff Booth, Gene Browne, Dwight Cooper, Fred Crosetto, John DeHart, Gunjan Doshi, Barrett Ersek, Mark Fullerton, Ben Godsey, Sam Goodner, Vishal Gupta, Roger Hardy, Jack Harrington, Alan Higgins, Nelson Jacobson, Mike Jagger, Kees de Jong, Rick Kay, Clate Mask, Henry McGovern, Lois Melbourne, Sanjeev Mohanty, Simon Morrison, Scott Nash, James Perly, David Rich, Stephen Roche, Alan Rudy, Ken Sim, Naomi Simson, Carey Smith, Jerry South, Adam Sproule, John Stepleton, Scott Tannas, and Graham Weston.

Two entrepreneurs went way beyond the call of duty to review the galley copy and provide extensive, critical, and detailed feedback, which resulted in significant changes to the style, approach, format, and design of the book: Kevin Daum, serial entrepreneur, author, and brilliant columnist for *Inc.* Magazine; and Jimmy Calano, founder of CareerTrack, who gave Verne his start as an author and was one of the early investors in Gazelles. Everything you like about *Scaling Up*, credit them. Everything you don't, it's likely because we ignored their advice!

Thought Leaders

We've always believed it takes a "village of gurus" to help a company scale up, and it's no different for Gazelles and the content in this book. We would like to especially thank Jim Collins, the late W. Edwards Deming, Pat Lencioni, Tom Peters, Hermann Simon, and Jack Stack. Their pioneering contributions to the world of business have helped millions and shaped many of the ideas you find in this book. In addition, we would like to thank Greg Alexander, David Allen, John Assaraf, Laurie Bassi, Josh Bernoff, Bob Bloom, Travis Bradberry, Greg Brenneman, Mark Burton, Jim Cecil, Ram Charan, Robert Cialdini, Chip Conley, the late Stephen Covey, Stephen M.R. Covey, Aubrey Daniels, Peter Diamandis, Mohamed Fathelbab, Frances Frei, Seth Godin, Marshall Goldsmith, Mark Goulston, Vijay Govindarajan, Adam Grant, Brian Halligan, Brad Hams, Darren Hardy, Chip Heath, Margaret Heffernan, Sally Hogshead, Luke Hohmann, Tony Hsieh, Mark Johnson, Rick Kash, Eric Keiles, Dave Kerpen, Todd Klein, Jim Kouzes, Mike Lieberman, Giovanni Livera, Jim Loehr, David Marquet, Ron McMillan, James McQuivey, Ari Meisel, Youngme Moon, Geoffrey Moore, Richard Moran, Anne Morriss, John Mullins, Alexander Osterwalder, Bob Parsons, Daniel Pink, Joe Pulizzi, Fred Reichheld, Rich Russakoff, Tom Sant, David Meerman Scott, Robin Sharma, Brian Souza, Jim Stengel, Jeff Thull, Bill Treasurer, Lynne Twist, John Warrillow, Pat Williams, and Liz Wiseman — all of whom have contributed to our various Growth Summits around the world and our continuing online course offerings.

Marketing and Coaching Partners

Critical to spreading the use of our tools around the world are our marketing partners: Patrick Cheo, Southeast Asia; Gautam Ganglani, Middle East; Daniel Marcos, Latin America; Pieter van Osch, Netherlands; Christo Popov, Eastern Europe; Raghu Potini, India; and Eric Schmidt, China.

We also want to thank our growing association of coaching partners around the globe, led by Keith Cupp, and his team at Gazelles International, including Jean Carpenter, Maureen Chan-Hefflin, Cindy Kraft, Mary Rarick, and Debbie Trimble. Many of our Gazelles International Certified Coaches (and those completing their certification) read through an advance copy of this book and provided detailed feedback. These partners include Betsy Allen, John Anderson, David Baney, Kenyon Blunt, Andy Buyting, Elizabeth Crook, Rick Crossland, Doug Diamond, Will Ditzler, Glen Dobbie, Michael Duke, Hayley Erner, Ken Estridge, Robert Fish, Jerry Fons, Brad Giles, Mike Goldman, Lluis Gras, Jeremy Han, Lynn Hartrick, Nicolas Hauff (and his son Christopher), Jon Iveson, Hazel Jackson, Christopher Kenny, Avtar Hari Singh Khalsa, Cheryl Beth Kuchler, Matt Kuttler, Neale Lewis, Michael Mirau, Jeff Moore, Bahaa Moukadam, Paul O'Kelly, Craig Overmyer, Jeff Redmon, Ted Sarvata, Terry Schaefer, Nicholas Scott, Howard Shore, Rob Simons, Shannon Susko, and Monte Wyatt.

Key Collaborators

There were a handful of key collaborators without whom this book would not have become a reality: Patrick Thean, who worked closely with Verne to create the original version of the Growth Tools; Kevin Lawrence, who provided significant help in updating the tools and served as an early sounding board in shaping the "Execution" content; and Greg Crabtree and Alan Miltz (and his team), who contributed much of the "Cash" content, which was sorely missing in the first draft. A special thank-you to Sebastian Ross, peer coach and dear friend, who contributed extensively to the "People" content and met weekly to review and provide important feedback for the entire book.

The Council and Team

Gazelles' "council" provided important support, encouragement, and feedback throughout the process of creating the book. This team includes the CEOs of the various Gazelles companies: Keith Cupp, Gazelles International; Daniel Marcos, Gazelles Growth Institute; Steve Sansom, Gazelles Growth Capital; John Ratliff, GazellesPro; Kaihan Krippendorff, Gazelles Strategy; Sebastian Ross, Gazelles People; Jeff Freemyer, Gazelles 360; and Andy Bailey, Align for Gazelles.

We would like to especially thank the team at Gazelles HQ, including Joanne Costello, Missy Giltner, Kathleen McKune, and Donna Whitwell. Missy provided overall project management for the book, keeping us on deadline and driving all the extensive details (printing, distribution, warehousing) of getting a book self-published. And thank you to our outsourced technology team, led by Raghu Potini — with direct support from Amruth Mekala, Dayanand Chilveri, Purity Correia, and Praveen Salitra, who created and continually update the *scalingup.com* and *gazelles.com* websites and distribute the "weekly insights."

No book gets completed without a direct team of writers, editors, and designers. Thank you to writing partner and editor Elaine Pofeldt, who helped extensively with this book and supports the *Fortune* magazine and Growth Guy syndicated columns; Wendy Zuckerman, who provided extensive copyediting for this book (any mistakes were because we ignored her advice!); Hank Gilman, former editor and champion at *Fortune*, who helped with the book title; and Jun-Hi Lutterjohann, who designed the book cover, Growth Tools, and graphics, and typeset the entire book.

Family and Friends

Thank you to Stephen and Shelly Watkins, Derek and Rachel Benham, Craig and Linda Husted, and Rajeev and Arpita Agarwal for their support (and homes) in providing hideouts for completing the book. And a special thank-you to Catalan friend and partner Cesar Martinell.

Last, thank you to Verne's wife, Julie, and four children, Cameron, Cole, Jade, and Quinn, for their support and patience through the writing of this book. And to his mom, Jan, on whose 80th birthday this book was published.

THE TABLE OF CONTENTS

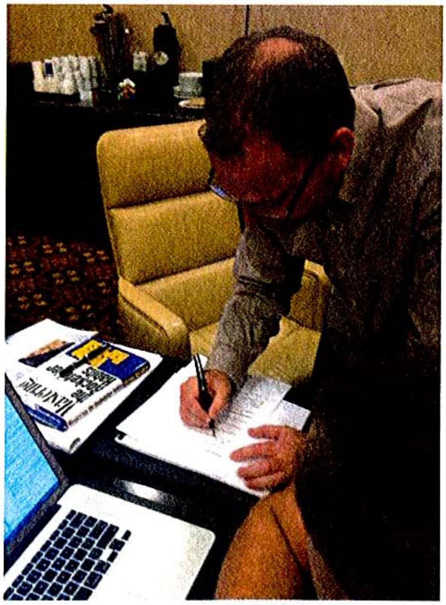
THE INTRODUCTION
Tools for Scaling Up

If you want to teach people a new way of thinking, don't bother trying to teach them. Instead, give them a tool, the use of which will lead to new ways of thinking.

— R. Buckminster Fuller
Designer, inventor, futurist

Infusionsoft, an Arizona-based provider of customer relationship management software, secured $54 million in growth capital from Goldman Sachs in 2013 and used the money to improve its product, invest in better services, and expand its customer base. Infusionsoft grew 53% the year before, with a $50 million run rate, and has plans to grow to $200 million and 100,000 small business customers by the end of 2016. Its #1 priority for 2013 was to increase its score from the Net Promoter System. Infusionsoft is a "gazelle."

"One of my team members took a picture of me while I was signing the deal [with Goldman Sachs]," Clate Mask, CEO of Infusionsoft, told Verne. "At the time, we were at our monthly off-site meeting, working on our 2013 and mid-range plans. We were frequently referring to *Mastering the Rockefeller Habits* that day, and it happens to be in the picture. The Rockefeller Habits and its tools are discussed on a weekly basis among our leadership team. Your work has made a big impact on our company."



It's been 12 years since *Mastering the Rockefeller Habits* was first released. *Scaling Up (Mastering the Rockefeller Habits 2.0)* is the first major revision. Having spent over 30 years helping more than 40,000 business leaders like Mask scale up their ventures, we've learned that CEOs and executives of growth firms want ideas and tools they can implement immediately to improve some aspect of their business — and want to enjoy the ride along the way!

... So How Is This Book Different From *Mastering the Rockefeller Habits*?

If you've not read *Mastering the Rockefeller Habits*, you can skip that book. If you have read it, here's what's new:

1. *Scaling Up* is organized around the 4 Decisions a leader must address: People, Strategy, Execution, and Cash. This structure provides you with a more comprehensive look into the issues you face in growing a business (75% of it is new material).
2. Our One-Page Strategic Plan has been updated extensively and is supported by a more robust strategic-thinking tool called the 7 Strata of Strategy. This tool will help you craft an industry-dominating strategy.
3. There are six new one-page tools, including a simplified Vision Summary document that will make it easier to communicate the vision of your organization to employees and others.
4. We moved the practical examples, gleaned from more than 50 interviews with CEOs using our tools, from the appendix (no one reads an appendix!) and placed them throughout the main chapters.
5. We share our take on why certain techniques — like the daily huddle — falter. This will save you time (and frustration) in implementing the Rockefeller Habits.

What hasn't changed is the style. Just as we were writing this introduction, Verne received a note from entrepreneur Ray Lambert, who exclaimed: "You have written a book exactly like I like to read. You get TO THE DAD GUM POINT! I love it."

Mastering the Rockefeller Habits has helped tens of thousands of leaders of growing firms. We hope you find *Scaling Up* to be an even more practical resource.

Most Important Routine/Habit

Leaders are readers. When Larry Page, CEO of Google was asked how he learned to run a company, he responded "I read a lot." For instance, he read three books on how to name things. Bill Gates, for decades, maintained his famous "Think Week", devouring a record 112 books/articles/whitepapers during one session.

Mark Cuban, the outspoken owner of the Dallas Mavericks, reads 3 hours per day. His goal is to find just one idea he can use to give him and the over 150 companies in which he's invested an edge in the marketplace. Mark Zuckerberg's personal development priority in 2015 was reading a book every two weeks, exceeding by two the number of books (24/year) *Topgrading* author Brad Smart found separated A-player executives from B and C players.

And Charlie Munger, reflecting in 2015 on the 50-year record of investing by his partner Warren Buffett, credited "his (Warren's) first priority would be reservation of much time for quiet reading and thinking, particularly that which might advance his determined learning, no matter how old he became."

All these great biz leaders know one thing — nothing interesting can come out of your brain that you don't put in first. Having a natural curiosity and thirst for learning separates the good from the great in our experience. Happy reading!

1

THE OVERVIEW

People, Strategy, Execution, Cash

EXECUTIVE SUMMARY: *A 20-minute overview providing busy executives with a summary of the practical tools and techniques for scaling up a business. Aligned around 4 Decisions every business leader must make — People, Strategy, Execution, and Cash — they also represent the four main sections of this book where more specific how-to information, along with mini-case studies and examples, are detailed.*

WARNING: *This overview contains a lot of lists to keep it concise — you'll be drinking from a fire hose! But it will prep you for the rest of the book where the ideas will be served up in more bite-sized pieces. You might also want to read the last, three-page-long chapter titled "Next Steps."*

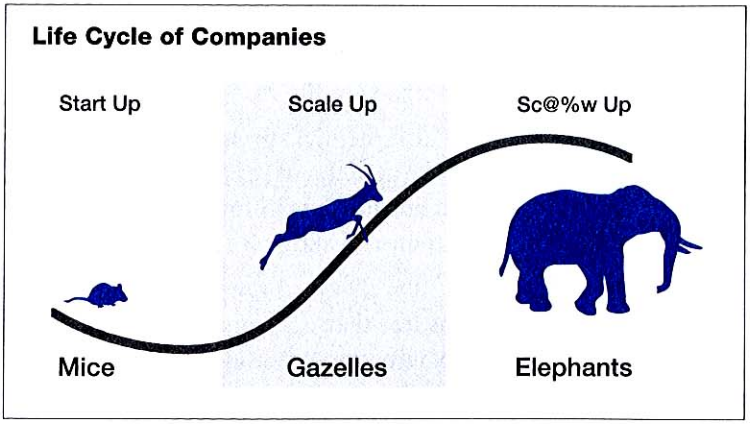
Start up, Scale up, Sc@%w up …

… or Stall out (fail to scale)!

This sequence describes the life cycle of most businesses as they move up the S-shaped curve of growth. The key to scaling this curve:

1. Attracting and keeping the right *People*;
2. Creating a truly differentiated *Strategy*;
3. Driving flawless *Execution*; and
4. Having plenty of *Cash* to weather the storms.

Millions of people start new ventures, and of those that survive, 96% remain "mice." It's only a few — the "gazelles" or scaleups — that scale beyond $10 million, $100 million, or $1 billion in revenue, the path that Clate Mask's Infusionsoft (mentioned in "The Introduction") is on. This book gives you the tools to scale up 10x.



Eventually, many growing firms — gazelles — get sold, some to "elephants" (and a rare few grow up to become elephants themselves), often crushing the innovative culture of what was a thriving, growing company. Completing the cycle, many of these big companies turn bad — often downright evil — and later become extinct or irrelevant at best. (Read Nassim Nicholas Taleb's breakthrough book *Antifragile: Things That Gain From Disorder* for ways to inoculate your family, company, and country from this tragic ending.)

Because of the sheer number of start-ups and small businesses, there is a huge market for the myriad number of books supporting these entrepreneurs — the two best being Michael E. Gerber's *The E-Myth Revisited* and Eric Ries' *The Lean Startup*. The large number of entrepreneurs also forms a significant enough voting bloc to garner attention from politicians.

In turn, the sheer size of the Fortune 500 companies provides a huge feeding trough for the thousands of business gurus and the 11,000 new business books they release each year. These large firms employ expensive lobbyists to do their bidding with governments, receiving all kinds of special favors.

Largely ignored, by gurus and governments, are the older, high-impact growth firms. Though they generate almost all of the innovation and job growth in economies, there are not enough of them to garner the favorable attention of politicians or book publishers. Verne and his team are focused on helping cities and countries create scaleup eco-systems to support the already robust startup eco-systems that exist.

Gazelles: High-Impact Firms

In a study for the US Small Business Administration titled "High-Impact Firms: Gazelles Revisited" *(http://tiny.cc/high-impact-gazelles)*, the authors note: "High-impact firms are relatively old, rare and contribute to the majority of overall economic growth. On average, they are **25 years old**, they represent between **2 and 3 percent** of all firms, and they account for almost all of the private sector employment and revenue growth in the economy."

To underpin this "older" idea, we looked at the trajectory of two well-known gazelles: Apple and Starbucks. Apple, which started in 1976, had only 9,600 employees when it released the iPod in 2001, its 25th anniversary. The rest is history. All the phenomenal growth of Apple in revenue and employment (80,000 in 2013) occurred after this historic milestone, resulting in the largest-market-cap company in the world at the time of this book's publication.

Starbucks followed an almost identical growth path, launching in 1971 and taking the first 20 years to perfect its business model and reach 100 locations. By its 25th anniversary, it was at 1,000 stores and ventured outside the US for the first time. Since then, it has rocketed to more than 18,000 stores in 62 countries and more than 150,000 employees.

To paraphrase Steve Jobs, "I'm always amazed how overnight successes take a helluva long time." If you've been in business less than 25 years, you still have time to make it big; if it has been more than 25 years, and you've not scaled up, it's never too late!

Scaling Up

"How do we scale up the business?" is a question we've heard from countless leaders over the years, prompting the name and focus of this book. "How to survive the process" with your sanity and relationships intact is the second question.

Dumbest in the Room

Senior leaders know they have succeeded in building an organization that can scale — and is fun to run — when they are the dumbest people in the room! In turn, if they have all the answers (or act like they do), it guarantees organizational silence, exacerbates blindness (the CEO is always the last to know anyway), and means the senior team ends up carrying the entire load of the company on their backs. The best leaders have the right questions, but turn to their employees, customers, advisors, and the crowd to mine the answers. Every business is more valuable to the degree that it does not depend on its top leader. For more on these topics, read Margaret Heffernan's book *Willful Blindness: Why We Ignore the Obvious at Our Peril* and Liz Wiseman's *Multipliers: How the Best Leaders Make Everyone Smarter.*

To scale up a business from a handful of employees to something significant (i.e., build a company that has a chance to both put a "dent in the universe" and dominate its industry), our tools and techniques focus on **three deliverables**:

- Reduce by 80% the time it takes the top team to manage the business (operational activities)
- Refocus the senior team on market-facing activities
- Realign everyone else (onto the same page) to drive execution and results

And when our tools are successfully implemented, organizations attain these **four outcomes**:

- At least double the rate of cash flow
- Triple the industry average profitability
- Increase the valuation of the firm relative to competitors
- Help the stakeholders — employees, customers, and shareholders — enjoy the climb

Yet there are **three barriers** to scaling up, which we'll discuss in the next chapter:

- **Leadership:** the inability to staff/grow enough leaders throughout the organization who have the capabilities to delegate and predict
- **Scalable infrastructure:** the lack of systems and structures (physical and organizational) to handle the complexities in communication and decisions that come with growth
- **Marketing:** the failure to scaleup an effective marketing function capable of attracting new customers, talent, advisors, and other key relationships to the business

Thus, to overcome these barriers your team must master, using our tools, **four fundamentals**:

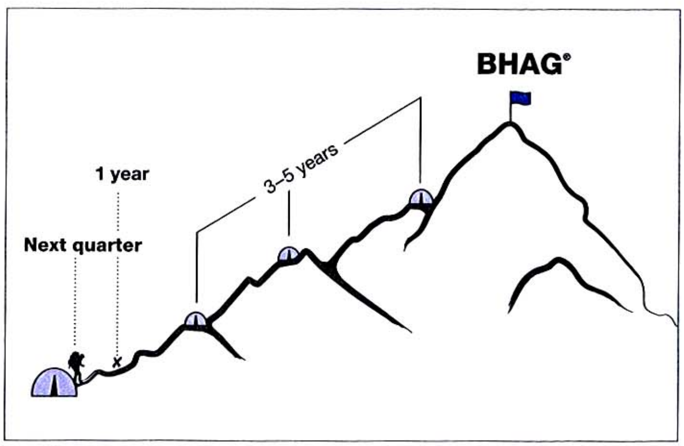
- **In leading People**, take a page from parenting: Establish a handful of rules, repeat yourself a lot, and act consistently with those rules. This is the role and power of Core Values. If discovered and used effectively, these values guide all the relationship decisions and systems in the company.
- **In setting Strategy**, follow the definition from the great business strategist Gary Hamel. You don't have a real strategy if it doesn't pass two tests: First, what you're planning to do really matters to enough customers; and second, it differentiates you from your competition.
- **In driving Execution**, implement three key habits: Set a handful of *Priorities* (the fewer the better); gather quantitative and qualitative *Data* daily and review weekly to guide decisions; and establish an effective daily, weekly, monthly, quarterly, and annual meeting *Rhythm* to keep everyone in the loop. Those who pulse faster, grow faster.
- **In managing Cash**, don't run out of it! This means paying as much attention to how every decision affects cash flow as you would to revenue and profitability.

With these fundamentals in mind, you're ready to start climbing.

Climbing Everest

Scaling up a business is like climbing a mountain. To use a simple analogy, many people dream of summiting Mount Everest (or its equivalent in their life). Those who do it create a plan. Prepared with a set of inviolable rules and a passion for the journey, they head toward the summit. Along the way, they aim for a series of camps: intermediate waypoints normally marking significant changes in terrain. Then it's a matter of focusing on the next day and, more important, the first and subsequent steps, making adjustments along the way as the mountain conditions dictate. Those who have made such personal journeys report that it's ultimately about staying acutely aware as you push to take just one more calculated step.

It's the same for an organization. Guided by a set of Core Values and a purpose, it chooses a Big Hairy Audacious Goal (BHAG®)* to achieve in the next 10 to 25 years. To break up the journey, the leadership team sets a series of three- to five-year targets divided up into annual goals. These are further broken down into specific actionable steps the business takes over the next few weeks or months, adjusting tactics as the market conditions dictate.



BHAG is a registered trademark of Jim Collins and Jerry Porras.

In the end, it's about keeping everyone focused on the summit (BHAG®) and then deciding the appropriate next step (quarterly Priority) while respecting the rules that keep you from being swept off the mountain (Values) — keeping in mind Bill Gates' note that "most people overestimate what they can do in one year and underestimate what they can do in ten years."

Everything in between this quarter and the next 10 to 25 years is a WAG: a wild-ankle guess! There are no straight lines in nature or business. As a winding river must follow the contours of the landscape on its way to the ocean, a business must navigate the undulations of the marketplace on the way to its Everest. The key is keeping your eye on the prize and adjusting course accordingly.

And along the journey, there is a set of habits — routines — that will make the climb easier. "Routine sets you free" is a key driving principle behind our methodologies and tools. You may set a goal to lose weight, but unless you change some daily and weekly routines, it will never be accomplished. Goals without routines are wishes; routines without goals are aimless. The most successful business leaders have a clear vision and the disciplines (routines) to make it a reality.

"Routine sets you free."

Wasted Debate

Nothing is more maddening than hearing teams debate whether a certain idea is applicable in a business-to-business or business-to-consumer engagement. In the end, we're all in the same business: people to people. None of us sell to companies; we deal with the people (consumers) inside these companies, who have the same motivations, challenges, and emotions as any other person.

The other needless delineation is between product and service companies. In the long run, most product companies add on services to increase profitability and most service companies productize their offerings to make them easier to sell. We recommend that you avoid these debates, and consider most of the examples in this book applicable to any organization in any industry.

4D Framework

McKinsey has its 7-S Framework for large companies; we have our 4D Framework for growth firms. This framework evolved from the fundamentals, barriers, and goals described earlier and was based on this quote attributed to Albert Einstein: "*Everything should be made as simple as possible, but not simpler.*" Scaling a business is a complex endeavor and requires robust — yet simple enough — tools and techniques to get the job done.

The framework includes these elements (see diagram on Page 8):

1. **Driver:** Leaders drive implementation of the Rockefeller Habits with their teams. Execution is much easier if they and their teams engage in coaching, embrace learning, and encourage the use of new technologies to accelerate implementation of our tools.

Gazelles
GROWING LEADERS - GROWING COMPANIES

Gazelles 4D Framework Getting to Results

A proven business growth method used by thousands of growing companies to achieve ***RESULTS***.

1 Driver (with Accelerators)

Coaching – Advisors, Consultants, Coaches
Learning – Continuous Business Education (CBE)
Technology – Management Accountability System

2 Demands (Balance)

People (Reputation) – Employees, Customers, Shareholders
Process (Productivity) – Make/Buy, Sell, Recordkeeping

3 Disciplines (Routines)

Priorities – The Main Thing
Data – Qualitative/Quantitative
Meeting Rhythms – Daily, Weekly, Monthly, Quarterly, Annual

4 Decisions (Right Questions)

People – Happiness/Accountability
Strategy – Revenue/Growth
Execution – Profit/Time
Cash – Oxygen/Options

! Results

2x Cash Flow • 3x Profitability • 10x Valuation • More Time!

2. **Demands:** Leaders have to balance two often competing demands on the business — People and Process. This requires simultaneously maintaining a great reputation with the employees, customers, and shareholders (the People side of the business); and improving the productivity of how the firm makes/buys, sells, and tracks these transactions (the Process side of the business).
3. **Disciplines:** To effectively execute, there are three fundamental disciplines (routines): Set *Priorities*; gather quantitative and qualitative *Data*; and establish an effective meeting *Rhythm*. It's in these meetings, debating the data (the brutal facts!), where the priorities emerge.
4. **Decisions:** Ultimately, all of the above require some decisions. To scale the business requires getting four key decision sets — People, Strategy, Execution, and Cash — absolutely right, and there are right and wrong answers. Shortchange any one element and you're not maximizing your opportunity.

WARNING: *Since* Mastering the Rockefeller Habits *was written, many bits and pieces of our 4D Framework and tools have been copied by others. In the process, several have oversimplified our work to the point that it might still be helpful — setting a few priorities and key performance indicators (KPIs) is better than nothing — but there is huge potential left on the table in terms of revenue and profit. "Simple, not simpler" is our aim, as Einstein warned.*

In turn, we know that it takes a "village of gurus" to help a company and that no one person has all the answers. Therefore, we'll be referencing many important books and ideas that fill in important gaps around leadership, sales, marketing, hiring, etc.

Right Questions

Our last guiding principle in designing the 4D Framework:

We have the answers, all the answers; it's the question we do not know.

Most of the teams we work with are wicked smart. With enough perseverance and grit they'll find answers. Our concern is they might be working on the wrong question. Much of our work is helping leadership teams formulate the right questions. Once they get the questions right, the answers tend to appear.

"We have the answers, all the answers; it's the question we do not know."

Each of the 4 Decisions — People, Strategy, Execution, and Cash — is anchored by an overarching Key Question. And the accompanying Growth Tools (our label for the collection of one-page worksheets summarized next) are designed to focus teams on specific questions driving growth and performance for each of the 4 Decisions areas of the business.

So, to start implementing the 4D Framework, the first question is, "*Which of the 4 Decisions — People, Strategy, Execution, and Cash — needs the most attention next?*" Start there! We have a complimentary individual 4 Decisions Assessment available at *scalingup.com* to help you determine your starting point.

Our methodology and tools are like crossword or Sudoku puzzles. Start where you can and work your way through. There is no specific sequence. However, we do have five initial "next steps" outlined in the last chapter.

The following overview of each decision will further help you choose where to start in scaling up the business.

People

KEY QUESTION: *Are the stakeholders (employees, customers, shareholders) happy and engaged in the business; and would you "rehire" all of them?*

Do you have the "right people doing the right things right" inside the organization?

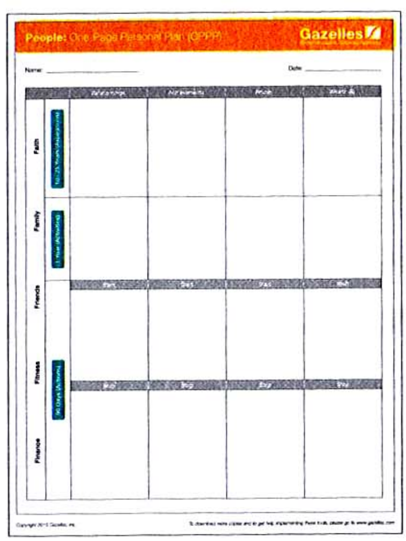
"Right people doing the right things right."

Then you need to evaluate all the key relationships surrounding the business. Would you keep all your existing customers? Are you happy with your investors/bank? Are your vendors supporting you properly? Are your advisors — accountants, lawyers, consultants, and coaches — the best for the size of the organization and future plans? The toughest decisions to make are when the company has outgrown some of these relationships and you need to make changes.

It starts with your own relationship goals and priorities, then being clear who are the leaders accountable for the main functions and processes that drive the business.

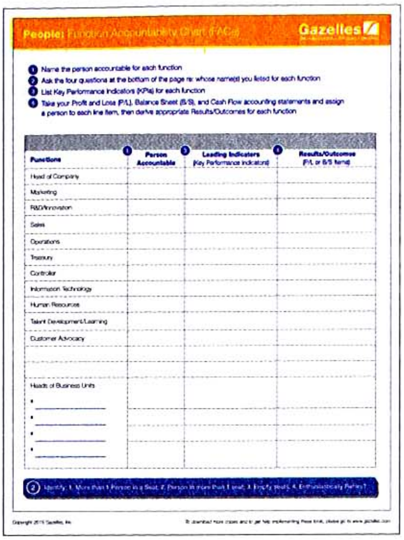
The tools (three-quarter-size copies are included in the introduction to the "People" section):

One-Page Personal Plan (OPPP): Our personal and professional lives are intertwined — and best if aligned. This tool looks at four key decisions — Relationships, Achievements, Rituals, and Wealth — which mirror the four key decisions for the business: People, Strategy, Execution, and Cash. Having a strong and fulfilled personal life provides an important foundation for sustaining your efforts in the business.



Function Accountability Chart (FACe): Jim Collins, author of *Good to Great: Why Some Companies Make the Leap... And Others Don't*, emphasizes the importance of getting the right butts in the right seats at the top of the organization. After all, the bottleneck is always at the top of the bottle! The FACe tool provides a list of seats (functions) that all organizations must fill.

"The bottleneck is always at the top of the bottle!"


People: Function Accountability Chart (FACe) Gazelles

1. Name the person accountable for each function
2. Ask the four questions at the bottom of the page re: whose name(s) you listed for each function
3. List Key Performance Indicators (KPIs) for each function
4. Take your Profit and Loss (P/L), Balance Sheet (B/S), and Cash Flow accounting statements and assign a person to each line item, then derive appropriate Results/Outcomes for each function

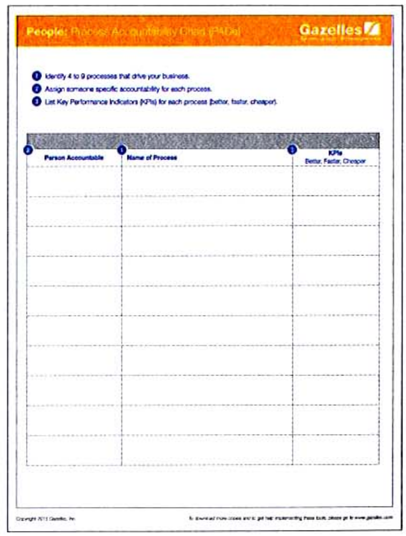
Functions	1 Person Accountable	3 Leading Indicators (Key Performance Indicators)	4 Results/Outcomes (P/L or B/S items)
Head of Company			
Marketing			
R&D/Innovation			
Sales			
Operations			
Treasury			
Controller			
Information Technology			
Human Resources			
Talent Development/Learning			
Customer Advocacy			
Heads of Business Units			

You want to delegate these functions to people who fit your culture and pass two tests:

1. They don't need to be managed.
2. They regularly wow the team with their insights and output.

Next designate one or two key performance indicators (KPIs) for each function, defining objectively what activities each senior leader needs to be focused on day-to-day. Last, decide on a handful of results/outcomes accountable to each function (i.e., who is accountable for revenue, gross margin, profit, cash, etc.). These outcomes normally represent line items on the financial statements.

When completed, this one-page accountability tool helps you diagnose where you have people and performance gaps on the leadership team.


People: Process Accountability Chart (PACe) Gazelles

1. Identify 4 to 9 processes that drive your business.
2. Assign someone specific accountability for each process.
3. List Key Performance Indicators (KPIs) for each process (better, faster, cheaper).

2 Person Accountable	1 Name of Process	3 KPIs Better, Faster, Cheaper

Process Accountability Chart (PACe): Most work flows horizontally across the various functions. Functions are not isolated cells. When these functions aren't working well together, the firm can stall.

This chart provides a place to delineate the four to nine processes that drive the business (i.e., the processes for developing and launching a new product; for attracting, hiring, and onboarding new employees; for billing and collecting, etc.).

Next, designate who is accountable for each process, which can be tricky since these processes cut across various functions and there might be some ego/control issues between the functional heads.

Last, decide on two or three KPIs that track the health of the process — the most important being the length of time, from start to finish, for a specific process. We'll discuss how a variety of organizations are utilizing the principles of Lean, a management practice invented by Toyota, to streamline and speed up their processes.

"The Team" and "The Managers" chapters: There's a continual war for talent. We'll share guerilla marketing techniques for attracting a large number of qualified candidates and review the Topgrading methodology for interviewing and selection.

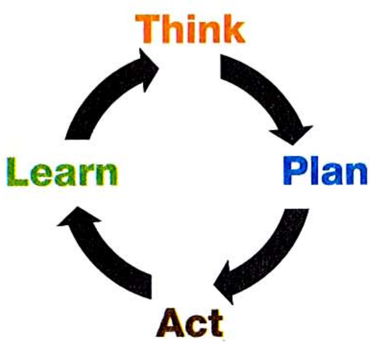
In retaining employees and keeping them engaged, we'll cover the five activities of great (vs. good) managers (we prefer the term "coaches" — more on this later):

- Help people play to their strengths.
- Don't demotivate; dehassle.
- Set clear expectations and give employees a clear line of sight.
- Give recognition and show appreciation.
- Hire fewer people, but pay them more (frontline employees, not top leaders!).

Strategy

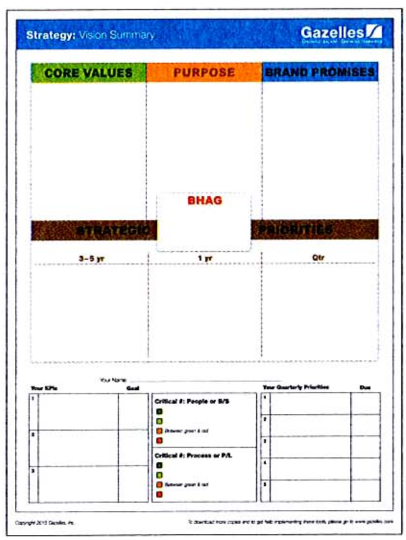
KEY QUESTION: *Can you state your firm's strategy simply — and is it driving sustainable growth in revenue and gross margins?*

It's time to break apart a 50-year-old business term — *strategic planning* — and think about it in terms of two distinct activities: *strategic* thinking and execution *planning*. Each requires two very different teams and processes.



Strategic thinking requires a handful of senior leaders meeting weekly (it's not sufficient to do strategy work once a quarter or once a year) in what Jim Collins calls "the council." It's a meeting separate from the standard executive team meeting. Rather than getting mired in operational issues, the strategic thinking team is focused on discussing a few big strategic issues including those outlined in the SWT and 7 Strata tools summarized below.

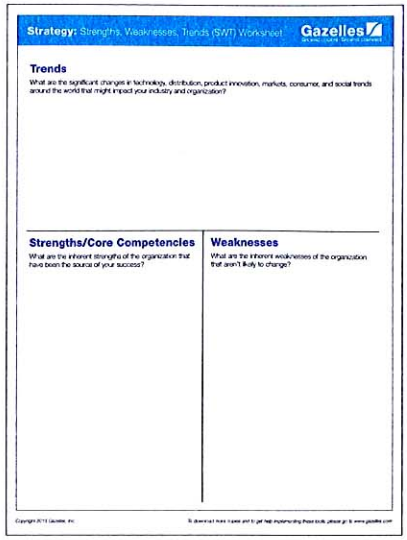
Execution planning, in turn, requires a much larger team engaged in implementing the broader strategy. Setting specific annual and quarterly priorities, outcomes, and KPIs is best if middle management and frontline employees are involved. They are closer to the day-to-day operational issues of the company, and their participation in setting the plan creates better buy-in.



Add in both disciplined *action* and active *learning* activities and you have a simple Think, Plan, Act, Learn cycle of strategic planning.

The tools (three-quarter-size copies are included in the introduction to the "Strategy" section):

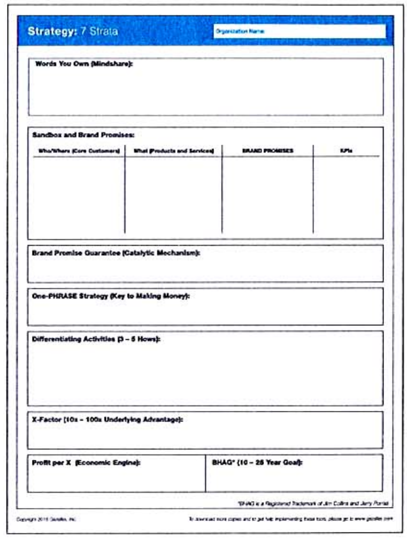
Vision Summary: For companies just getting started implementing the Rockefeller Habits as well as firms with 50 employees or fewer, the Vision Summary provides a simplified One-Page Strategic Plan (OPSP) framework. And for larger firms taking advantage of the more detailed aspects of the OPSP, the Vision Summary provides a one-page format to communicate key aspects of the company's vision to employees, customers, investors, and the broader community.



SWT: We've augmented the standard SWOT (strengths, weaknesses, opportunities, and threats) process with a tool called the SWT (strengths, weaknesses, and trends).

Whereas the SWOT process drives leaders to look inward at both their company and industry challenges, the SWT focuses on exploring broader external trends beyond their own industry or geography. It's a powerful tool to spot opportunities before the competition and prevent "inside/industry myopia."

The 7 Strata of Strategy: This tool represents the seven components (stratum) of a robust, yet simply stated, strategy. It's designed to provide the kind of differentiation and barriers that allow you to dominate your niche in the marketplace.



The seven components:

1. What word(s) do you own in the minds of your targeted customers (e.g., Google owns "search")?
2. Who are your core customers, what three Brand Promises are you making them (e.g., Southwest Airlines promises Low Fares, Lots of Flights, Lots of Fun), and how do you know you're keeping these promises (Kept Promise Indicators, a play on KPIs)?
3. What is your Brand Promise Guarantee (e.g., Oracle has been advertising the chance to win $10 million if its Exadata servers don't outperform the competition by a factor of five)?
4. What is your One-PHRASE Strategy that likely upsets customers (Apple's "closed system") but is key to making a ton of money and blocking your competition?
5. What are the three to five Activities that fit Harvard strategist Michael Porter's definition of the essence of differentiation (e.g., IKEA's furniture needs assembly)?
6. What is your X-Factor — a 10 times to 100 times underlying advantage over the competition — that completely wipes out any and all rivals?
7. What are your Profit per X (economic driver) and BHAG® for the company? These come straight from Jim Collins.

One-Page Strategic Plan (OPSP): If you want everyone on the same page, then you need this page first. The OPSP is our best-known and most widely used tool. It's designed to drive alignment, accountability, and focus.

"If you want everyone on the same page, then you need this page first."

The body of the plan consists of seven columns organized around seven basic questions you need to answer if you want to accomplish anything: *Who, What, When, Where, How, Why*, plus *Should/Shouldn't*. We've aligned these with standard strategic planning language like Core Values, Purpose, Annual Priorities, etc. — but anchor the plan in these simpler questions.

The first three columns of the OPSP represent the strategic thinking part of the plan supported by the work done on the 7 Strata; the last four columns represent the execution planning part of the plan. The OPSP has space along the bottom to summarize your SWT and along the top to list the key metrics monitoring your reputation (People) and productivity (Process).

Execution

KEY QUESTION: *Are all processes running without drama and driving industry-leading profitability?*

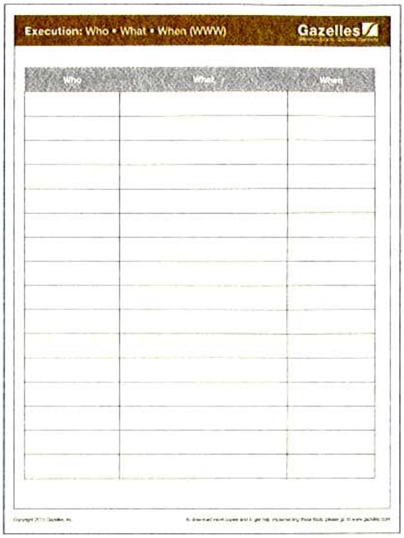
You know you have execution issues if three things exist:

1. There is needless drama in the organization (e.g., something shipped out late; the invoice was wrong; someone missed a meeting; etc.).
2. Everyone seems to be working more hours, spinning his wheels, or spending too much time fixing things that should have been done right the first time.
3. Most important, the company is generating less than three times industry average profitability.

"Is the company generating three times industry average profitability?"

WARNING: *Companies can get by with sloppy execution if they have a killer strategy or highly dedicated people willing to work 18-hour days, eight days per week to cover up all the slop. Just recognize you're wasting a lot of profitability and time (i.e., you'll burn both cash and people in the process!)*

The tools (three-quarter-size copies are included in the introduction to the "Execution" section):



Who, What, When (WWW): Improve the impact of your weekly meetings by taking a few minutes at the end and summarizing *Who* said they are going to do *What, When*. This isn't about micromanagement; this is about excellent management and being clear in both communication and accountability.

The key is setting a "when" that is no longer than the time between weekly (or monthly) meetings. And if you have a more substantial initiative, the key is breaking it into pieces (eat the elephant one bite at a time) that can be accomplished within a few weeks.

Rockefeller Habits Checklist™: There are 10 fundamental habits that support the successful execution of your strategy — habits that haven't changed for 100 years since John D. Rockefeller implemented them, becoming the wealthiest person ever and building what has morphed into one of the largest companies today: ExxonMobil.

These habits dramatically increase profitability and reduce the time it takes to manage the business. And like the checklists that are critical to the airline industry in making sure planes stay in the air, consider these 10 habits as a "preflight" checklist for keeping your company growing and ensuring that it doesn't stall out.

WARNING: *You'll drive everyone in the organization crazy if you implement all of these habits at one time. The key is focusing on one or two each quarter, giving everyone roughly 24 to 36 months to install these simple, yet powerful, routines. Then it's a process of continually refreshing them as the company scales up.*

The habits ("Routines that set you free!"):

1. ***The executive team is healthy and aligned.*** Here we pull a page from Patrick M. Lencioni's *The Five Dysfunctions of a Team: A Leadership Fable*, a book we recommend that all leaders peruse (it's a quick read). In essence, your executive team needs to have a level of trust that permits true debate and constructive conflict to occur. What prevents this in large companies

is politics; what blocks it in growth firms is friendship. Members of the team must embrace its diversity (the more the better) and be willing to challenge each other in making decisions and exposing the brutal facts.

2. ***Everyone is aligned with the #1 thing that needs to be accomplished this quarter to move the company forward.*** As mentioned earlier, scaling a firm is about taking one significant step at a time and then checking data and adjusting accordingly. It is about setting a quarterly goal, providing the company with a badly needed finish line every 90 days, vs. just running and running and running. It also affords everyone an opportunity to celebrate or commiserate — and have some fun along the way. This is the power of setting a Quarterly Theme, which we'll discuss in depth later.

3. ***Communication rhythm is established and information moves through the organization accurately and quickly.*** The #1 challenge when two or more people are working together is communication (anyone married?). The key is an effective daily, weekly, monthly, quarterly, and annual Meeting Rhythm, which, when executed properly, actually saves everyone a tremendous amount of time. It's counterintuitive, we know. Specific agendas for each meeting will be detailed in the "Execution" section.

4. ***Every facet of the organization has a person assigned with accountability for ensuring goals are met.*** If communication is the #1 challenge, then nailing down accountabilities as the company scales is #2. This needs to be clear both vertically (across functions) and horizontally (across processes) throughout the organization. And it really gets messy when the organization moves to discrete business units.

5. ***Ongoing employee input is collected to identify obstacles and opportunities.*** A key component of the weekly qualitative data you need to guide the business must come from your employees, especially your sales channels and your frontline employees. They are closer to the action. We recommend that each senior leader formally talk to one employee each week and ask, "What should the company Start/Stop/Keep doing?" Pay particular attention to the "stops." These are the roadblocks you need to eliminate from the company to keep people motivated.

6. ***Reporting and analysis of customer feedback data is as frequent and accurate as financial data.*** The second key component of the weekly qualitative data that you need to guide the business must come from customers. We suggest that each senior leader formally ask customers questions that are more about gathering market intel, especially about competitors, than discerning whether they like your particular product or service.

7. ***Core Values and Purpose are "alive" in the organization.*** These are the handful of rules (Core Values) that you'll use to guide all the HR systems in the company: hiring, feedback, rewards and recognition, handbook, etc. And the Purpose (a better word than "mission") provides the critical "why" behind everything you do (i.e., what difference is your company making in the world?).

8. ***Employees can articulate the following key components of the company's strategy accurately.*** You want all employees to align their actions with the strategy of the company. To do this, they need to know and understand the company's 10- to 25-year goal (BHAG®); who the core customers are; the three Brand Promises everyone needs to keep; and what the company does — and be able to explain it when asked (the elevator pitch).

9. ***All employees can answer quantitatively whether they had a good day or week** (Column 7 of the OPSP).* Is each employee or team clear on their priorities and KPIs for the week? And do they know how they did that week? People love to know the score; thus the attraction of video games, sports, fundraisers, competitions, etc.

10. ***The company's plans and performance are visible to everyone.*** We're not big on sports analogies, but we strongly suggest stealing one idea from that industry: having huge scoreboards visible to everyone. We'll share examples and photos of growth firms that do.

Cash

KEY QUESTION: *Do you have consistent sources of cash, ideally generated internally, to fuel the growth of your business?*

"Growth sucks cash — the first law of entrepreneurial gravity."

Growth sucks cash. This is the first law of entrepreneurial gravity. And nothing ages a CEO and his or her team faster than being short of cash. In fact, Jim Collins and Morten T. Hansen, in their best-selling book *Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All*, found that successful companies held three to 10 times more cash assets than average for their industries, and they did so from the time they started. (We highly recommend that you read this book, Collins' first that directly addresses growth firms.)

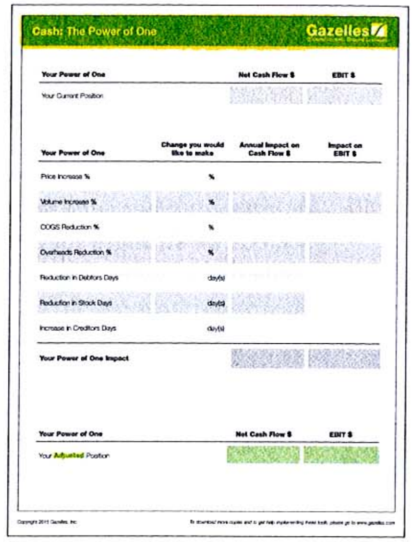
Yet many growth company leaders pay more attention to revenue and profit than they do to cash when it comes to structuring deals with suppliers, customers, employees (think bonus plans), or investors/banks. And when they receive their monthly financial statements, the cash flow statement is either nonexistent or ignored.

The quickest action you can take is to have your CFO give you a modified cash flow statement every day detailing the cash that came in during the last 24 hours, the cash that flowed out, and some idea of how cash is looking over the next 30 to 90 days. This will keep cash top-of-mind and give you a great feel for how cash is flowing through the business.

It's also critical to know your Cash Conversion Cycle (CCC). It's a technical term for how long it takes, after you spend a dollar/euro/yen on rent, utilities, payroll, inventory, marketing, etc., for it to make its way through your business model and back into your pocket. So that you can see how to calculate this, we recommend that you read a classic *Harvard Business Review* article titled "How Fast Can Your Company Afford to Grow?" by Neil C. Churchill and John W. Mullins.

The tools (three-quarter-size copies are included in the introduction to the "Cash" section):

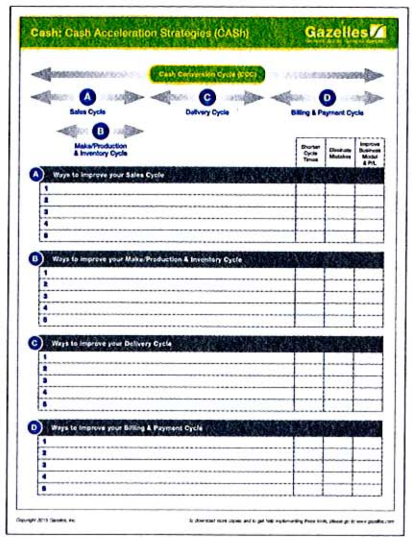
The Power of One: The 7 main financial levers available to managers to improve cash and returns in the business are:



1. **Price:** You can increase the price of your goods and services.
2. **Volume:** You can sell more units at the same price.
3. **Cost of goods sold/direct costs:** You can reduce the price you pay for your raw materials and direct labor.
4. **Operating expenses:** You can reduce your operating costs.
5. **Accounts receivable:** You can collect from your debtors faster.
6. **Inventory/WIP (work in progress):** You can reduce the amount of stock you have on hand.
7. **Accounts payable:** You can slow down the payment of creditors.

The tool calculates the benefit to cash if a 1% or one-day change is made to each of these levers.

Cash Acceleration Strategies (CASh) — Break down the CCC into four components, and brainstorm one of three ways to increase the cash flow in the business. We've had many clients double their operating cash flow immediately after working through this tool. It's also a great exercise to do with middle managers, to strengthen their understanding of how cash flows through the organization and to illustrate how everyone can make a positive contribution to improving the CCC.



The goal is to reverse the first law of entrepreneurial gravity and develop a viable business model in which the faster you grow, the more cash you generate — through larger deposits, faster collections, shorter sales and delivery cycles, etc. Then you've built a company that can self-fund its own growth.

Final Recommendations

Downloadable documents of the various tools, in multiple languages, are available at *scalingup.com* at no charge. Feel free to modify them and to suggest changes. They remain an open-source set of tools, and they are constantly being improved by the community of growth company executives using them.

Weekly Insights: Sign Up!

If you like the style and substance of the book, you can receive a very concise weekly email of best practices for managing a growing firm: ideas we pick up each week from executives like you.

Simply send an email to *vharnish@gazelles.com* and put "weekly insights" in the subject line. And please include a first and last name and your title, and tell us where your company is based. We'll add you to our expanding list of more than 60,000 leaders of growing companies.

Technology and Coaching Support

We've created several cloud-based tools to make implementation of the Rockefeller Habits 2.0 much easier and faster. The first is an online version of Verne's 2.5-day Scaling Up course providing a convenient way to educate your team and create a common language around our tools and techniques. Visit *www.growthinstitute.com*.

We've also created Alignwithgazelles.com, an online and mobile-based app that hosts our one-page tools and helps you track all your cascading KPIs and Priorities in one easy location. Visit *www.alignwithgazelles.com* for more information and to start your trial today.

We also have certified coaching partners around the globe that can support you locally in implementing the Rockefeller Habits 2.0. No one has ever achieved peak performance without a coach. Visit *www.gicoaches.com* to locate a coach near you.

Relax With the Process

None of this is complicated (except strategy): It just requires some discipline and perseverance. Treat our tools as you would Sudoku or crossword puzzles. Fill in what you know as you go. Again, it's not necessary to work through the tools in any kind of sequence. Start where it makes the most sense for your organization. "Get it down; then get it right" is one of our mottos.

The key is lots of iterations: reviewing and updating our Growth Tools every quarter. Routine will set you free.

"Get it down; then get it right."

The rest of this book provides the practical how-to details behind our recommended processes and tools. Enjoy, and best of luck as you scale your business — and let us know how we can help.

2

THE BARRIERS

Leadership, Infrastructure, and Marketing

EXECUTIVE SUMMARY: *There are predictable evolutions and revolutions as an organization grows. These are dictated by the increasing complexity that comes with adding employees, customers, product lines, locations, etc. Handling a company's growth successfully requires three things: an increasing number of capable leaders; a scalable infrastructure; and an effective marketing function. If these factors are missing, you will face barriers to growth. Scaling up successfully requires leaders who possess aptitudes for prediction, delegation, and repetition.*

I'm tired of sailing my little boat
Far inside of the harbor bar;
I want to be out where the big ships float —
Out on the deep where the Great Ones are! ...
And should my frail craft prove too slight
For storms that sweep those wide seas o'er,
Better go down in the stirring fight
Than drowse to death by the sheltered shore!

— Daisy Rinehart

Back in 1999, Alan Rudy was a disillusioned CEO. "Wasn't I supposed to be making more money and having more fun, the bigger the company got?" wondered the founder of Express-Med, a mail-order medical supplies firm based in Ohio. "I was angry all of the time," remembers Rudy. "I had a long weekend planned to go skiing with my father and two brothers for the first time in 10 years, yet I bagged out at the last minute because the business needed me to hold things together."

To make matters worse, on March 30 of that year, Rudy's CFO showed him financials that estimated a first-quarter profit of $300,000, yet two days later, his CFO said that they had actually *lost* $350,000. "For several hours, I thought it was an elaborate April Fools' joke," he chuckles today. "I kept trying to be a good sport about it, yet it turned out to be true." Turmoil among his staffers capped it off. Associates had fistfights in the parking lot, and one employee slashed the tires of another because of something said at work. The endless firefighting meant Rudy was putting in 80-hour workweeks. Needless to say, "stress was a little high," says Rudy.

Yet within two years, Rudy had reversed the trends, addressing the barriers we'll outline in this chapter. Utilizing the tools and techniques you'll learn in this book, he scaled up his 7-year-old firm into a $65 million industry leader. More important, he says, "It was fun again, and we were making money." Rudy went on to sell the company for $40 million, completing his own entrepreneurial life cycle: start, scale, sell.

Drawing on the lessons he learned in scaling up Express-Med, Rudy launched an investment firm to unlock the growth and profitability of additional companies. Incubating multiple firms amplified the importance of getting the right people into leadership positions. Because Rudy is a driven leader who "can take over a huddle and tell everyone what to do," he had to make himself "push accountability down," so everyone at each company had a stake in helping the business to excel.

Besides mastering these leadership and delegation challenges, Rudy learned a crucial lesson from the marketplace: You have to get your strategy right. This is what he calls finding the "ping" in the business. (Imagine the sound of flicking a plastic cup, representing a weak strategy, vs. flicking a fine crystal goblet, indicative of a clear one.) Great execution won't get you anywhere if your strategy is wrong. Understanding this has paid off handsomely for Rudy at several of his investments, including Perceptionist.

Perceptionist's "Ping"

Perceptionist started out as a call center, answering the phones for companies in 60 to 70 different industries. To uncover the Ohio-based firm's growth potential, Rudy spent three months on the road visiting customers. (CEO Lou Gerstner had the senior managers at IBM do something similar in an initiative code-named "Operation Bear Hug.") One of Perceptionist's clients began grousing about paying monthly rates equivalent to about $1 per minute to have calls answered, especially for misdials. Moreover, the customer waxed indignant about the problems of playing phone tag with clients who just wanted to make an appointment. In his frustration, the customer exclaimed to Rudy, "Forget the buck per minute; I'd pay you $25 to take over my calendar and book appointments!"

A light bulb went on. Rudy sold off accounts that needed only answering services (including ours at Gazelles!) and shifted the company's direction to booking appointments for its clients. While everyone else in the industry was focused on achieving a certain profit per minute, Rudy focused on attaining a targeted profit per booked appointment. This turned around a situation in which Perceptionist had been struggling to compete with overseas rivals with rates equivalent to 50 cents a minute. Focusing on this new metric and a handful of targeted industries — core customers — that needed appointments booked (plumbing, HVAC, and maid service firms) helped the company bring in revenue averaging $5 a minute. This was more than four times the industry average.

In addition, complexity decreased. "Training costs went way down, since our new reps went from needing to learn the language of 60 different industries to [mastering] just a few," says Rudy. "In the past, we often could not take on a new customer because we did not have trained personnel," a huge People problem in scaling the business.

Rudy eventually sold his stake in the company back to the original owner, and he says it is now doing well. Meanwhile, he tripled the value of his investment in the firm.

Grow Where You're Planted

Rudy has achieved some of his greatest successes with firms when following the old adage, "Grow where you're planted." In other words, stick to the businesses and markets you know best. For Rudy, this approach shortens the learning curve of entering a new industry, allowing him to better leverage the contacts and knowledge he already has to address the People, Strategy, Execution, and Cash aspects of each new business. (For more on this key point from the founders of Pizza Hut, Boston Chicken, Celestial Seasonings, and California Closets, read this *Fortune* article by Verne: *http://tiny.cc/worth-repeating.)*

In Rudy's case, growing where he was planted meant focusing on the medical supplies and pharmaceutical industries. In 2003, when he bought a minority stake in MemberHealth, a pharmacy benefits management company that helps seniors get discounts on prescription drugs, it was bringing in $7 million in revenue. Rudy helped the 18-person team implement the Rockefeller Habits, coaching MemberHealth's founder Chuck Hallberg. At Rudy's suggestion, the company dived into the first habit, holding a daily huddle at 7:30 a.m. to keep everyone focused on execution. Eventually, Rudy took on the role of chairman, while Hallberg remained CEO. The company rocketed to $1.2 billion in revenue by 2006, when the duo sold it to Universal American Financial, a Nasdaq-traded company, for $630 million. It is now a division of CVS — a really big ship.

And Rudy is at it again. In March 2013, he formed Sleep Health Supplies, which took over a failing firm. He's CEO and majority shareholder of the business, now known as Good Night Medical. Using disciplines like the daily huddle to stay focused on key metrics, his team has achieved double the orders per year and has kept patients for twice as long as most competitors. Building strong, recurring relationships with customers has enabled Rudy to negotiate a cost of goods from manufacturers that is about 30% lower than his rivals'. All told, he estimates that the value of the firm's customers gives Good Night Medical about a 10x competitive advantage over other players in the field.

As a serial entrepreneur and investor, Rudy has experienced firsthand the importance of getting the right **People** in place and learning how to delegate; the power of a focused **Strategy** to reduce complexity and drive industry-leading performance; and the importance of bringing disciplined **Execution** to all these ventures through habits like the daily huddle. (He's a big fan, if you haven't already guessed.) And he's both invested and made significant **Cash** — while continuing to learn what is required to make the ride enjoyable along the way.

The Growth Paradox — an Anchor, or Wind at Your Back

Like Rudy, who continues to go out beyond the harbor bar, you will find that leading a growth company is one of the more exhilarating things you can do in the world. And eventually sailing among the "big ships" can be an incredibly fulfilling and rewarding opportunity.

Jack Harrington's Big Boat Experience

Raytheon acquired Virtual Technology Corporation (VTC) in 2006, and within 30 days, Jack Harrington, VTC's co-founder and CEO, was asked to run a $750 million, 2,000-person Raytheon division specializing in command, control, communications, computers, and intelligence (or C4I, in defense industry terms). Admittedly, this was a daunting move for the growth-oriented CEO, who was used to running the much smaller $30 million company. "I immediately called Verne and said, 'Holy cow, Batman, I've got a $750 million business,'" he recalls. "He told me that I had all the skills and talent I needed and that I could do it. And in my heart, I wanted to see if I could take what I learned in growing a fast, entrepreneurial company and apply it to a larger business. I immediately brought in the Rockefeller Habits, starting with the morning huddles, and then quarterly strategic planning meetings using the One-Page Strategic Plan. It was really incredible to increase our alignment, strategic thinking, and debate."

Harrington was next asked to lead an even larger organization, ThalesRaytheonSystems, a joint venture equally owned by Raytheon Company and France-based Thales S.A. He notes that the same habits and meeting rhythms were responsible for creating a more collaborative culture across the French and American operations. Plus, the organization became much more aligned around the strategic vision of the company. What was once a divide-and-conquer approach to managing the business changed dramatically. "Everyone is building trust and relationships," he says. "It's tremendous, because you're not just getting together to discuss operations. You're discussing strategy and debating the market, and that really brings out incredible insight and power."

Yet for many business leaders, scaling the business is a nightmare. Does every employee you hire, every customer you acquire, and every expansion you drive actually make you tired? Are you working longer hours, although you'd thought there should be some economies of scale as the business grew? Does it feel like everyone is just piling onto an increasingly heavier anchor that you alone are dragging through the sand? This isn't what you signed up for. It's supposed to get easier as you scale, so what happened?

You're experiencing the growth paradox: the belief that as you scale the company — and increase your dream team, prospects, and resources — things should get easier, but they don't. Things actually get harder and more complicated.

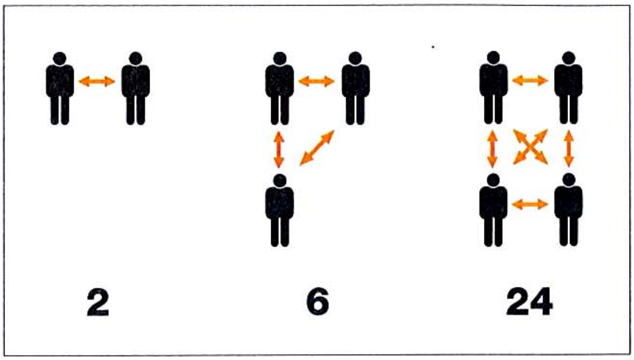
Yet Harrington's experience in scaling VTC to $30 million and leading a growing 2,000-person division at Raytheon demonstrates that the techniques you're learning in this book do scale — and that they are as applicable to some of the largest companies around the globe as they are to growth firms.

So why do only a fraction of companies actually scale up, while others fail to scale? How do you counter the growth paradox? What did Harrington have to master at VTC that was transferable to his Raytheon experience?

In short, he had to conquer complexity (and so do you!).

Complexity

Think back to when your company was just the founder and an assistant with a plan on the back of a napkin. This start-up situation represents two channels of communication (degrees of complexity), and anyone in a relationship knows that is hard enough. Add a third person (or customer or location or product), and the degree of complexity triples from two to six. Add a fourth, and it quadruples to 24.

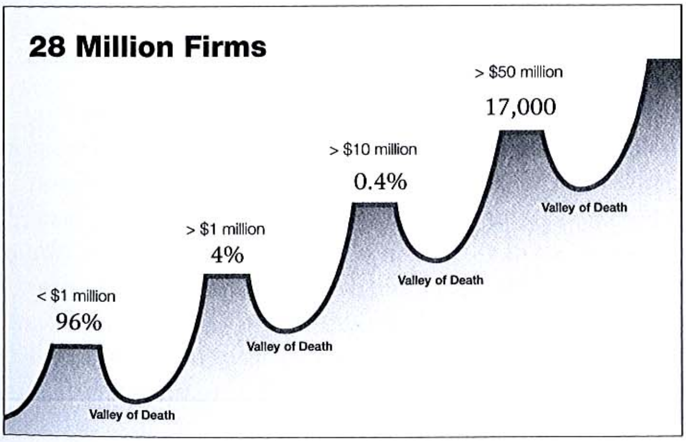


Expanding from three to four people grows the team only 33%, yet complexity may increase 400%. And the complexity just keeps growing exponentially. It's why many business owners often long for the day when the company was just them and an assistant selling a single service.

This complexity generates three fundamental barriers to scaling up a venture:

- **Leadership:** the inability to staffgrow enough leaders throughout the organization who have the capabilities to delegate and predict
- **Scalable infrastructure:** the lack of systems and structures (physical and organizational) to handle the complexities in communication and decisions that come with growth
- **Marketing:** the failure to scaleup an effective marketing function to both attract new relationships (customers, talent, etc.) to the business and address the increased competitive pressures (and eroded margins) as you scale

When you remove these barriers, then that anchor you've been dragging turns into wind at your back. You can get your boat sailing ever faster. You can better navigate through the "Valleys of Death" — those points in the company's growth where you're bigger, but not quite big enough to have the next level of talent and systems needed to scale the venture. These are points where the business needs to leap from one whitecap to the next or risk falling into an abyss (see figure).



There are roughly 28 million firms in the US, of which only 4% ever reach more than $1 million in revenue. Of those firms, only about one out of 10, or 0.4% of *all* companies, ever make it to $10 million in revenue, and only 17,000 companies surpass $50 million. Finishing out the list, the top 2,500 firms in the US are larger than $500 million, and the top 500 public and private firms exceed $5 billion. Data indicate that there are similar ratios in other countries.

What defines the hills and valleys is related more to the number of employees than to revenue, since this is what drives the complexity equation mentioned above. If you figure roughly $100,000 revenue/employee for small firms and $250,000 revenue/employee for larger firms (yes, larger firms are more efficient on average); and you figure that one can lead seven to 10 others, you get some natural clusters:

- One to three employees (the majority of home-based businesses)
- Eight to 12 employees (a very efficient company with a leader and a bunch of helpers)
- 40 to 70 employees (a senior team of five to seven people, leading teams of seven to 10 — in a company where you still know everyone's name)
- 350 to 500 employees (seven leaders, with seven middle managers each, running teams of seven to 10 — actually a very efficient company)
- 2,500 to 3,500 employees (more multiples of seven to 10)

Any company with an employee count between these natural clusters is likely feeling a bit stuck. Everything seems to take longer to complete. Problems you thought you had solved earlier start creeping up again. And you're feeling this "big, but not big enough" syndrome — even in making minor decisions like what size photocopy machine you need next.

As an organization follows this growth path, it goes through a predictable series of evolutions and revolutions. For more on these natural cycles, read professor Larry E. Greiner's classic *Harvard Business Review* article titled "Evolution and Revolution as Organizations Grow," from July-August 1972 (updated in May 1998).

Scott Tannas and His Valleys of Death

In 2011, Western Financial Group (WFG) — an Alberta-based financial services company with more than 2,000 employees — was acquired by Quebec-based Desjardins Group in a $440 million transaction. In the 15 years between WFG's IPO in 1996 and its return to being privately owned, the company's stock price rose 1,038%. Founder and Vice Chairman Scott Tannas remains committed to growing the company, and regularly shares with other entrepreneurs his insights on how to handle growth. "Verne talks about the Valleys of Death in how companies grow, and for those of us who have grown a big business, it's true," he says.

Drawing from his own experience scaling WFG during 20 years as CEO, Tannas shares that when a company grows from two to 10 employees, it arrives at a "Valley of Death" because processes have to change. You'll need to hire an assistant manager. "You can't run the business all by yourself, so you need to change the way you run it, and some guys can't get over it," says Tannas. After 25 employees, you face another set of challenges. For example, you need to hire someone to control money. At around 100 employees, "you need internal communications processes because you can't have a single staff meeting anymore," Tannas says. Company politics also come into play. "You have employees who think they know more than others," he notes. "All these different challenges come at different stages of growth that require you to change things.

If you don't, then you will either fall backward or you're doomed to stay a company of that size."

Hoping to tap into some of his business experience to grow the economy of his own country, Tannas became a senator in the Parliament of Canada in 2013.

The three barriers to leadership, infrastructure, and marketing that can prevent firms from dealing with complexity are obstacles that Rudy, Harrington, and Tannas negotiated when growing their companies. Let's examine each barrier in more detail.

Leadership: Prediction, Delegation, and Repetition

As goes the leadership team, so goes the rest of the company. Whatever challenges exist within the organization can be traced to the cohesion of the executive team and its capabilities in prediction, delegation, and repetition.

Prediction

Leaders don't have to be years ahead, just minutes ahead of the market, the competition, and those they lead. The key is frequent interaction with customers, competitors, and employees.

This is much easier when the company is small and the leadership team (or lonely entrepreneur) is personally handling all the sales, programming the software, and delivering the company's products and services directly. This becomes increasingly more difficult as the business scales up. Senior leaders become further isolated from customers and frontline employees, losing their gut feel for the business and the marketplace.

This is why Rudy spent three months on the road visiting Perceptionist's customers, discovering a new business model that tripled the value of his investment. In "The Data" chapter, we'll delineate specific routines, along with tips on harnessing the power of big data, to help leaders improve their ability to "see around corners" in the marketplace. Ultimately, our tools and techniques will free the senior team so they can spend 80% of the week engaged in market-facing activities.

Delegation

Letting go and trusting others to do things well is one of the more challenging aspects of being a leader of a growing organization.

Most entrepreneurs prefer to operate alone. This is why most companies have just a handful of employees. We often exclaim (tongue in cheek) that many business owners would love their companies even more if they didn't have to deal with employees or customers! It's the idea — the dream — of their business that they love the most.

To get to 10 employees, founders must delegate activities in which they are weak. To get to 50 employees, they have to delegate functions in which they are strong! In many cases, the strength of the top leader becomes the weakness of the organization. For example, if the founder is the CEO and the main sales driver, either everyone ignores the big picture or revenue stalls. The leader needs to delegate one of these two functions if the company is to continue to scale up.

From 50 employees on up, the senior leaders must develop additional leaders throughout the organization who share the same values, passion, and knowledge of the business. This way they have enough talent to whom they can delegate the myriad number of activities and transactions necessary to grow the business.

Most MBA programs don't offer a single course or even a lecture on how to delegate, yet it is one of the most important skills a leader must develop. And many leaders confuse delegation with abdication. Abdication is blindly handing over a task to someone with no formal feedback mechanism. This is OK if it is not mission-critical, but all systems need a feedback loop, or they eventually drift out of control.

Successful delegation requires four components, assuming you have delegated a job to the right person or team:

1. Pinpoint what the person or team needs to accomplish *(Priorities* — One-Page Strategic Plan).
2. Create a measurement system for monitoring progress *(Data* — qualitative and quantitative key performance indicators).
3. Provide feedback to the team or person *(Meeting Rhythm)*.
4. Give appropriately timed recognition and reward (because we're dealing with people, not machines).

The Rockefeller Habits provide the methodologies for leaders to delegate properly.

NOTE: *Beehives have only one leader. So why do companies need more? Some firms are experimenting with "bossless" organizations. In these companies, essentially everyone is a leader, able to act on his or her own. This requires a tremendous amount of training and development so all employees share the same DNA (values, purpose, knowledge, etc.) as the CEO. These "agile scaleups" (our preferred term) must also have technology-driven systems in place to handle several of the delegation activities listed earlier. Our favorite book on the topic is Steven Johnson's* Emergence: The Connected Lives of Ants, Brains, Cities, and Software. *The Rockefeller Habits, when fully implemented (and automated through technology), facilitate the decentralization of organizations, providing pheromone-like communication and feedback trails similar to those that guide the activities of ants and other communities without bosses.*

WARNING: *Since computing technology has yet to reach the capability of "HAL" in* 2001: A Space Odyssey *(though it's getting closer), organizations that attempt the bossless experiment find they still need quasi-team leaders they call "champions" or some other related term. In reality, we still need these middle-management layers, for now.*

Repetition

The leader's final job is "to keep the main thing the main thing" — to keep the organization on message and everyone heading in the same direction. L. David Marquet, author of *Turn the Ship Around!: A True Story of Turning Followers into Leaders*, led the US Navy's worst nuclear sub to first place in a year (without throwing anyone off the sub!). He had a picture hanging on the back of his stateroom door showing a man repeatedly asking his dog to sit, until the dog sits and the man exclaims, "Good dog!" This was a continual reminder to pick a message and then repeat it a lot until the organization responded.

Repetition encompasses consistency. Finish what you start. Mean what you say. And don't say one thing and do something else. Consistency is an important aspect of repetition.

We'll reinforce the power of repetition throughout the book. Specifically, we will look at:

1. **Core Values:** the handful of rules defining the culture, which are reinforced through your People (HR) systems on a daily basis
2. **Core Purpose:** the top leader's regular stump speech to keep everyone's heart engaged in the business
3. **Big Hairy Audacious Goal (BHAG®):** the 10- to 25-year goal that provides constant context for all of the decisions made throughout the organization
4. **Priorities/Themes:** a handful of three- to five-year, one-year, and quarterly priorities, which require repeated review on a daily and weekly basis to keep them top-of-mind

A key function of leadership is delivering frequent messaging and metrics to reinforce these key attributes of the company and culture.

Scalable Infrastructure

As an organization grows, it becomes more complex. It's a force of nature. The lowly amoeba can do everything it needs with one cell. (The home-based business is similar.) However, as the number of cells increases, the organism begins to develop subsystems — for feeding, elimination, circulation, procreation, etc. In order to survive, each cell must be located close enough to a nutritional source and have sufficient surface area to absorb energy and eliminate waste. That's why a cell can get only so big.

The same is true for companies, only these subsystems (cells) represent the various functions, locations, and business units within the organization (organism). As these subsystems grow, they must continue to segment, or they become too big and insular and thus experience the problems we see with large bureaucracies. Just as living cells need to be near nutrients, companies need to be close to customers (in terms of locations, product groups, and customer segments). This drives how companies structure their organizations and establish accountabilities.

To keep things flowing, an organization needs a scalable infrastructure (similar to the blood supply and the nervous system). When you go from two employees to 10, you need better phone systems and more structured space. When your company reaches 50 employees, you still need space and phones, and you suddenly also require an accounting system that shows more precisely which projects, customers, or products are actually making money. Between 50 and 350 employees, your information-technology systems need to be upgraded and integrated. And above that, you must revamp them again, as the organization attempts to tie all systems into one comprehensive database. Otherwise, a simple change of address by a customer can unleash a series of expensive mistakes.

NOTE: *Don't decide the physical location of employees and teams haphazardly. Certain functions are best co-located together, which we'll discuss in the "People" section of the book. Even determining the location of restrooms, break rooms, and meeting rooms is important, especially when a company grows to occupy a second floor or more in a building. Serious communication issues surface when employees on different floors no longer bump into each other. The goal is to increase the cross-interaction (accidental collisions) of various individuals and functions.*

Marketing

The #1 functional barrier to scaling up is the lack of an effecting marketing department, separate from sales (accounting is the second — discussed in the Cash Section). Marketing is critical to both attracting new relationships (customers, talent, advisors, investors, etc.) to the business and addressing the increased competitive pressures (and eroded margins) as you scale. To prevent margin erosion, marketing's role (with lots customer input) is to determine the right *what* we should be selling to the best *who's*; and *how* best we should sell at the right *price*. And because marketing strategy equals strategy, the head of the organization is usually intimately involved in these decisions.

It's Regis McKenna, author of the classic *Relationship Marketing: Successful Strategies for The Age of the Customer*, who taught Steve Jobs, Andy Grove, and most of the Silicon Valley tech stars how to market in the 80's. It was McKenna and his firm that also guided Verne as he built his early global entrepreneurship organizations. McKenna's focus was twofold. First, the key to effective marketing is setting aside one hour per week to focus on marketing i.e. establish a marketing meeting (do you have one?). Second, to make a list of the top 25 (or 250 if you are a bigger firm) influencers — relationships — you need to get behind the venture to scale it up. Then spend time each week figuring out how to network your way to these people. With a compelling vision (elevator pitch), then convince these influencers to help.

The more influential the names you put on the piece of paper, the more potential you have to scale the business bigger and faster. Being young and dumb, as a student at Wichita State University (go Shockers!), Verne boldly included President Ronald Reagan, Steve Jobs, Michael Dell, and the owners of *Venture* and *Inc.* magazines on his list of 25. What's crazy, in just 36 months of working the list, one hour per week, the Association of Collegiate Entrepreneurs (ACE) became a global "overnight" success, hosting a major event in Los Angeles for over 1100 entrepreneurs including Jobs and Dell with full page ads for the organization donated by *Venture* and *Inc.* magazines — and a congratulatory telegram from President Reagan. So the first step is to stop and make your list!

The other major agenda item for the weekly marketing meeting is Dr. Philip Kotler's 4Ps of marketing — Product, Price, Place, and Promotion. Of the four, pricing tends to get the least attention yet is one of the most important decisions you'll make. Whereas we'll spend hours working on the cost side of the business; the pricing side is lucky to get an educated guess. To up your skills in this area we strongly recommend reading pricing guru Hermann Simon's book *Confessions of a Pricing Man: How Pricing Affects Everything*. His firm Simon-Kucher & Partners is the leading pricing consultancy in the world — you might consider engaging them.

We also encourage you to search for Olgivy's 4Es of Marketing. One of the largest ad agencies in the world, they have updated the 4Ps of marketing and have provided a complimentary online presentation and whitepaper on the 4Es — Experience, Exchange, Everyplace, and Evangelism. Spend time each week working on how to execute better the 4Es of the business.

Last, we encourage you to read Adele Revella's book *Buyer Personas: How to Gain Insight into your Customer's Expectations, Align your Marketing Strategies, and Win More Business*. Ultimately, marketing's job is to identify and attract the best (right) customers to the venture and arm the sales team (or those driving your online marketing activities) with a definitive list of prospects and plenty of information to help them make the sale. If not, sales teams (distributors) will chase any low hanging fruit they can find which is the quickest way to defocus the business and crush your margins.

Market Dynamics

More broadly, the marketplace makes you look either smart or dumb. When it's going your way, it covers up a lot of mistakes. When fortunes reverse, all your weaknesses seem to be exposed. Bill Gross, founder of IdeaLab which has launched over 100 companies, looked at the key factors to the success of growing firms — including people (team), strategy (business model and idea), and cash (funding). What he determined is that market timing trumped them all. Too early or too late with your great idea and you miss the wave.

There's an additional cruel and counterintuitive market dynamic when you're growing a business. As the firm scales from $1 million to $10 million in revenue, the senior team tends to be focused externally on amassing new business. Yet this is precisely the time when a little more internal focus, to establish healthy organizational habits and a scalable infrastructure, would pay off in the long term. As the business scales past $10 million, organizational complexities tend to draw the attention of the senior team inward (leading to firefighting). This is precisely when the team needs to be focused more externally on the marketplace (by talking to customers, as Rudy does), given the increased competitive pressures that come with size.

There is also an important sequence of focus when it comes to your financial metrics. Between startup and the first million or two in revenue, the key driver is *revenue* (sell like hell). The focus is on proving that a market exists for your services. As for cash, which many business owners might think is the first focus, the entrepreneur has to rely mainly on family and friends (or fools!).

It's between $1 million and $10 million that the team needs to focus on *cash*. Growth sucks cash, and since this is the first time the company will make a tenfold jump in size, the demands for cash will soar. In addition, at this stage of organizational development, the company is still trying to figure out its unique position in the marketplace, and these experiments (or mistakes) can be costly. This is when the cash model of the business needs to be worked out (e.g., "How is the business model going to generate sufficient cash for the company to keep growing?"). Will the business model generate its own cash internally; have sufficient lines of credit to sustain growth; and attract investors with deep-enough pockets to support it?

As the organization passes $10 million in revenue, new internal and external pressures come to the forefront. Externally, your organization is on more radar screens, alerting competitors to your threats. Customers are beginning to demand lower prices as they do more business with your company. At the same time, internal complexities increase, which cause costs to rise faster than revenue. All of this begins to squeeze an organization's *gross margin*. As gross margin slips a few points, the organization is starved of the extra money it needs in order to invest in infrastructure, like accounting systems and training. This creates a snowball effect of further expensive mistakes as the company passes the $25 million mark.

To prevent the erosion in your margins, it's critical that you maintain a clear value proposition in the market. At the same time, the company must continually streamline and automate internal processes to reduce costs. Organizations successful at doing both will see their gross margins increase during this stage of growth, giving them the extra cash they need to fund infrastructure, training, marketing, R&D, etc.

By the time it reaches $50 million in revenue, an organization should have enough experience and a strong-enough position in the market to predict profitability accurately. It's not that profit hasn't been important all along as the organization grows. It's just more critical, at this stage, that organizations generate *predictable* profit, since profit swings of a few percentage points either way represent millions of dollars.

Which brings us full circle to the main function of a business leader: to build a predictable revenue and profit engine in an unpredictable marketplace and world. The "20-Mile March" lesson from Jim Collins and Morten T. Hansen's book *Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All* highlights how companies with steady growth year in and year out dramatically outperform firms that experience wild swings in revenue and profits.

The spoils of victory go to those who maintain a steady pace, day in and day out, in all kinds of weather and storms. And it's this predictability, driven by effective processes, that is ultimately the key to crafting an organization that attracts and keeps top talent; creates products and services that satisfy customer needs; and generates significant wealth.

In summary, growing a business is a dynamic process as the leadership team navigates the evolutions and revolutions of growth. And like the growth stages of a child, they are predictable and unavoidable. To deal with these challenges, the company must grow the capabilities of the *leadership* team throughout the organization; install scalable *infrastructure* to manage the increasing complexities that come with growth; and stay on top of the *market dynamics* that affect the business.

To do this, there are 4 Decisions that leaders must address: People, Strategy, Execution, and Cash. These are the same four that Rudy and his team continue to face as they scale up their latest venture. The rest of the book is organized around these 4 Decisions, providing you with tools, techniques, and best practices for making the critical judgment calls that drive growth.

SCALING UP
PEOPLE

THE PEOPLE INTRODUCTION

KEY QUESTION: *Are all stakeholders (employees, customers, shareholders) happy and engaged in the business; and would you "rehire" all of them?*

Business leaders need great people both inside the company and out — investors, suppliers, customers, partners, advisors — as well as a great support network at home. All of these people are critical to the business.

So how do you know you need to make changes on the people side of the business, and in your life, as you scale up the venture? Two questions:

1. *Are you happy?* We're not talking about some kind of monklike peace, even in misery. This is a more straightforward question. Do you enjoy coming to work? Or are you experiencing irreconcilable issues with business partners? Is there a specific executive not getting the job done? Is there a team member who disrupts everyone else? Is there a customer with too big a piece of your revenue? Is there a supplier not delivering? Is an investor or the bank making your life difficult? Are you having issues with a family member or friend?
2. *Would you enthusiastically rehire everyone, knowing what you know today?* This goes hand-in-hand with the questions above (except for family!) and includes not only employees but existing customers, suppliers, and other stakeholders in the business. It's a painful question that requires one to face the brutal facts and make changes. It's especially tough when the company has simply outgrown some earlier relationships.

If you fail to address these relationship issues head on, they will continue to drain your emotional energy, leaving little left to expend on the Strategy, Execution, and Cash aspects of the business. That's why we address People first in our 4 Decisions model.

ACTION: *Is there a relationship that is draining you emotionally? If you need to deal with a contentious situation, we suggest you read* Crucial Conversations: Tools for Talking When Stakes Are High, *by Kerry Patterson, et al.*

Section Overview

The first chapter, The Leaders, details three one-page People tools to help you think through your personal relationship goals; specific accountabilities for the company's functions and business units; and the various process accountabilities in your organization. Working through these will help you recognize and prioritize the People challenges in your business and your life.

The second chapter, The Team, shares techniques for attracting and hiring talent. We'll emphasize the need for a strong marketing function to help recruit people, and the use of the Topgrading methodology for interviewing and selecting the A Players you need to grow the business.

The third chapter, The Managers, outlines five management practices that will keep everyone engaged, productive, and happy; and ideas for continuously educating your people so the company doesn't outgrow them. Nothing is tougher and more time-consuming than having to replace people who haven't kept up with the growth of the business.

Three one-page People tools will be covered in this section:

1. **One-Page Personal Plan (OPPP):** provides a framework for people to plan their personal life
2. **Function Accountability Chart (FACe):** clarifies the people who are accountable for scaling the business
3. **Process Accountability Chart (PACe):** lists the processes, and people accountable, that keep the business running smoothly

NOTE: *The "e" in the FACe and PACe acronyms represents the* **e***nergy and* **e***ntrepreneurial spirit that leaders must possess in order to scale up a business.*

A special thank-you to Sebastian Ross, German tech entrepreneur and Gazelles International Certified Coach partner in Barcelona, for co-authoring this "People" section and serving as an ongoing collaborator on the book.

Everybody, Somebody, Anybody, And Nobody

This is a little story about four people named Everybody, Somebody, Anybody, and Nobody.

There was an important job to be done and Everybody was sure that Somebody would do it.

Anybody could have done it, but Nobody did it.

Somebody got angry about that because it was Everybody's job.

Everybody thought that Anybody could do it, but Nobody realized that Everybody wouldn't do it.

It ended up that Everybody blamed Somebody when Nobody did what Anybody could have done.

Unknown author of condensed version of Charles Osgood's – A Poem About Responsibility.

People: One-Page Personal Plan (OPPP)

Gazelles
GROWING LEADERS – GROWING COMPANIES

Name: ____________________

Date: ____________________

		Relationships	Achievements	Rituals	Wealth ($)
Faith Family Friends Fitness Finance	10–25 Years (Aspirations)				
	1 Year (Activities)				
	90 Days (Actions)	Start	Start	Start	Start
		Stop	Stop	Stop	Stop

Download a full-sized copy of this tool at *scalingup.com*

People: Function Accountability Chart (FACe)

Gazelles
GROWING LEADERS - GROWING COMPANIES

1. Name the person accountable for each function
2. Ask the four questions at the bottom of the page re: whose name(s) you listed for each function
3. List Key Performance Indicators (KPIs) for each function
4. Take your Profit and Loss (P/L), Balance Sheet (B/S), and Cash Flow accounting statements and assign a person to each line item, then derive appropriate Results/Outcomes for each function

Functions	① **Person Accountable**	③ **Leading Indicators** (Key Performance Indicators)	④ **Results/Outcomes** (P/L or B/S Items)
Head of Company			
Marketing			
R&D/Innovation			
Sales			
Operations			
Treasury			
Controller			
Information Technology			
Human Resources			
Talent Development/Learning			
Customer Advocacy			
Heads of Business Units • ______			
• ______			
• ______			
• ______			

② Identify: 1. More than 1 Person in a Seat; 2. Person in more than 1 seat; 3. Empty seats; 4. Enthusiastically Rehire?

People: Process Accountability Chart (PACe)

Gazelles
GROWING LEADERS - GROWING COMPANIES

1. Identify 4 to 9 processes that drive your business.
2. Assign someone specific accountability for each process.
3. List Key Performance Indicators (KPIs) for each process (better, faster, cheaper).

2 **Person Accountable**	1 **Name of Process**	3 **KPIs** Better, Faster, Cheaper

3

THE LEADERS

The FACe and PACe of the Company

EXECUTIVE SUMMARY: *"The bottleneck is always at the top of the bottle," notes management guru Peter Drucker. Challenges within the company normally point to issues with, or among, the leaders. To address them, this chapter will focus on the leadership team. We will share three tools that help leaders get clear on their personal goals; define senior leadership accountabilities, key performance indicators (KPIs), and outcomes; and delineate the four to nine processes that drive the company. We include a short primer on organizational theory to help you think through how to properly divide the company into functions, product/service lines, and divisions.*

HINT: *Keep everyone as close to his or her respective customers as possible!*

Co-founders Stephen Roche and Simon Morrison realized that if they wanted to keep Shine Lawyers growing, they needed to bring up the next generation of leaders to drive the day-to-day so Roche and Morrison could focus on expansion. In addition to promoting Jodie Willey and Lisa Flynn into senior legal management roles, they brought on a new executive team to assist the 600-person law firm, with 30 locations across Australia, in its next stage of growth.

A decision to take the Rockefeller Habits-driven firm public, making it one of the first three law firms in the world to hold an IPO, spurred even more shifts in the organizational chart. Morrison moved to managing director, while Roche remained executive director, focused on fostering the strategic growth of the business through acquisitions and emerging opportunities. They also recruited new board members with key IPO experience.

"We now have a great team of talented young people who will take the business to new heights," says Morrison.

As a company scales up, the toughest decisions involve people and their changing roles in the organization, especially within the leadership team. Loyalties, egos, and personal friendships make these decisions even more difficult when the company faces a situation in which it has outgrown some of its early leaders.

In this chapter, we'll explore these senior leadership dynamics of a growing company, and the functions and processes needed to scale up the business. But first, a quick primer on organizational design.

The Organization: A Growing Organism

Remember the days when the start-up team was crammed into a single office like clowns squeezed into a Volkswagen? Now the company has 150 employees, or 1,500, and you find it infinitely more difficult to know how to divide up teams and set clear accountabilities. Worse, both customers and employees seem confused about how to navigate your organization.

We can take a clue from nature to solve these problems. Human organisms are made up of billions of cells vs. just a few specialized ones for a good reason: A single cell can only get so big and stay healthy. Once it reaches a certain size, the outer membrane won't have enough surface area to bring in nutrients and eliminate waste to support the cell. The cell will start to die from the inside out (like big bureaucracies!).

This means that the cell must divide. So, too, must your company or it won't be able to function in a healthy way. And just as no cell can be too far from the blood supply, no team can be too far removed from the action of the marketplace — or so big that it becomes unwieldy and unresponsive (think of Amazon's "two-pizza rule" — no team should be so big that it can't be fed with two pizzas). This is the main principle underpinning effective organizational design. Divide big teams into smaller ones aligned around projects, product lines, customer segments, geographical locations, etc., based on the idea of getting everyone in the organization into small teams and as close to his or her respective customers as possible. This is a way to increase the surface area of the company, giving the maximum number of employees a chance to interact with the marketplace.

Each cell within the organization must have someone clearly accountable for it. This doesn't mean the person is boss and/or gets to make all the decisions. In fact, it's important to delineate the differences between accountability, responsibility, and authority.

Accountability, Responsibility, and Authority

Though spelled differently, these business terms are often haphazardly interchanged. Here are our definitions:

Accountability: This belongs to the ONE person who has the "ability to count" — who is tracking the progress and giving voice (screaming loudly) when issues arise within a defined task, team, function, or division. It doesn't mean he or she makes all the decisions (or even any decisions) — which is why people often talk about leaderless teams. However, someone must still be accountable. The rule: If more than one person is accountable, then no one is accountable, and that's when things fall through the cracks.

Responsibility: This falls to anyone with the "ability to respond" proactively to support the team. It includes all the people who touch a particular process or issue.

Authority: This belongs to the person or team with the final decision-making power.

"If more than one person is accountable, then no one is accountable."

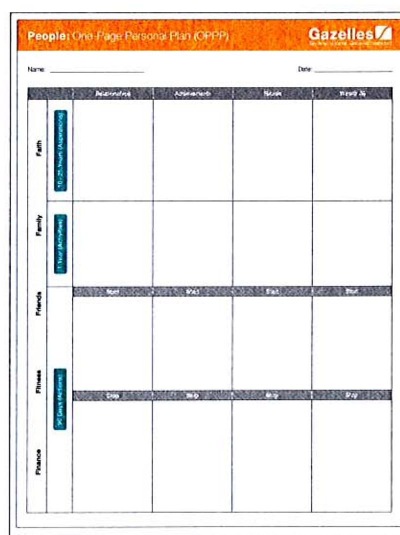
As an example, Gazelles' CFO has *accountability* for cash — she literally "counts" and reports it to the team daily. And she's accountable for alerting the team if she senses any potential issues now or later in the year. In turn, Verne, as CEO, maintains the *authority* over cash, signing off on major expenditures and investments. And everyone in the company has *responsibility* for making sure that cash is spent wisely and that deals/contracts are structured so they help generate vs. absorb cash as Gazelles continues to scale up.

But don't accountability and authority need to be roughly equal — as in "I need sufficient authority if I'm going to be held accountable?" For frontline staff, yes. At a Ritz-Carlton hotel, where the philosophy is that any employee who receives a complaint from a guest "owns" that complaint (accountability), first-line employees such as desk clerks, bellhops, and housekeepers are empowered (authority) to spend up to $2,000 to handle any customer complaints. Managers can spend up to $5,000 without additional authorization. A full 250 to 300 hours of first-year training make this possible.

As one moves up the organization into more middle and senior management positions, it's assumed that this balance of accountability and authority holds. However, those who have advanced up the ranks find that they've taken on increasingly more accountability for things they have less and less real control over — until they reach the top and find they are liable (often legally) for anything that goes wrong in an organization that is expanding beyond their day-to-day reach. This is why leaders get paid the big bucks — to bridge this ever-increasing gap between accountability and authority, using their skills of communication, persuasion, education, visioning, etc.

Getting accountabilities clear throughout the organization is crucial. To assist, we have three one-page People tools to help you think through your personal relationship goals; assign specific accountabilities for the company's functions and business units; and delineate the various process accountabilities in your organization. Working through these will help you identify and prioritize the People challenges on which you need to focus next in scaling up the organization.

One-Page Personal Plan (OPPP)



People often joke that the best moments of owning a boat were the day they bought the boat and the day they sold it.

There are similar punctuation marks in our lives — the day we're born and the day we pass away. As busy executives, if we're not careful, we can find that our personal lives end up as neglected as those vessels forever docked in the harbor (or parked in storage!). Thus, we're big believers in establishing personal priorities and aligning them with your professional goals.

Just as there are 4 Decisions you make to build a thriving company — People, Strategy, Execution, and Cash — there are parallel areas in your personal life — Relationships, Achievements, Rituals, and Wealth. We encourage each leader of a company to complete a One-Page Personal Plan (OPPP). As with all the one-page tools we'll detail in this book, you can find a three-quarter-sized copy of the OPPP in the section introduction, or download a full-sized copy at *scalingup.com*.

To complete the OPPP, start by filling in the Name and Date spaces at the top. Next, let's walk through the four columns of the OPPP.

Column 1 – Relationships

In the end, what matters most in life are the depth of your relationships with friends and family; and the sheer number of people you've helped along the way. These represent true measures of wealth. Financial wealth, then, is seen as a resource for fostering your relationships. For an inspirational story about an entrepreneur who used his wealth to help millions, read Conor O'Clery's *The Billionaire Who Wasn't: How Chuck Feeney Secretly Made and Gave Away a Fortune* (you'll also pick up some important tips on scaling up a global business).

NOTE: *The list of 5Fs located down the left-hand side of the OPPP — Faith, Family, Friends, Fitness, and Finance — is contributed by James Hansberger. He found, through his decades as a wealth advisor, that what mattered most to those near the end of their life were these 5Fs, in the order they are listed. They serve as a gentle reminder as you set priorities in the OPPP.*

Starting at the top of column 1, list the key groups of people with whom you want a lasting relationship (10 to 25 years). In business, you have a tremendous opportunity to help your employees and customers — so consider adding them categorically to the list. In your personal life, important relationships include family and friends.

Also list the various communities in which you're involved. Ted Leonsis, a Greek-American sports team owner, venture capital investor, filmmaker, and philanthropist, is author of *The Business of Happiness: 6 Secrets to Extraordinary Success in Life and Work*. He notes in his book a strong correlation between happiness and the number of diverse communities in which you are active.

The next step is to look at the groups listed and pick a few key relationships on which to focus your attention for the next 12 months and the next 90 days. Verne took a year to focus on spending more time with his 6-year-old son, Quinn; and one quarter with his sister, who needed support with some health issues.

At the same time, there may be some people in your personal or professional life who are destructive — literally draining the life out of you — and/or distract you from your higher goals. There's a space on the form where you can note relationships you want to end gracefully.

Column 2 – Achievements

Many CEOs find that even after reaching critical milestones for growing their company, they still feel they haven't made a real difference in the world. The achievements section of the OPPP can pave the way to a more meaningful life. Think about the major ways you'd like to make an impact through your work *beyond* reaching monetary goals — perhaps by mentoring others or setting up a nonprofit organization — and set objectives in these key areas.

In your personal life, you'll want to think about how you can make a real difference to the key people in your life. For instance, you might aim to have a blissful marriage, instead of just *staying* married, as many people do. Signing on to facilitate the five-year strategic plan for his children's school was an achievement Verne enjoyed prioritizing while writing this book.

The key is focusing on short-, medium-, and long-term achievements relative to the people listed in the relationship column. This might include stopping the pursuit of achievements that are taking you away from the relationships that matter most.

Column 3 — Rituals

Establishing regular routines in your life will help you achieve your larger goals. Examples of rituals might include planning a weekly date night with your spouse and booking some alone time with each child once a week. For distant family members, you might schedule a regular routine of biannual gatherings.

You might also establish rituals with people whose presence in your life supports your bigger goals. Meeting regularly with a workout buddy; spending time with close friends; participating in a business forum of like-minded leaders; and having a peer coach (a friend who holds you accountable each day — a recommendation by über-executive coach Marshall Goldsmith) are some examples.

And just as there are destructive people with whom you need to end your relationship, there might be some bad habits or behaviors you wish to stop — particularly those that have proved harmful to those around you.

Column 4 — Wealth

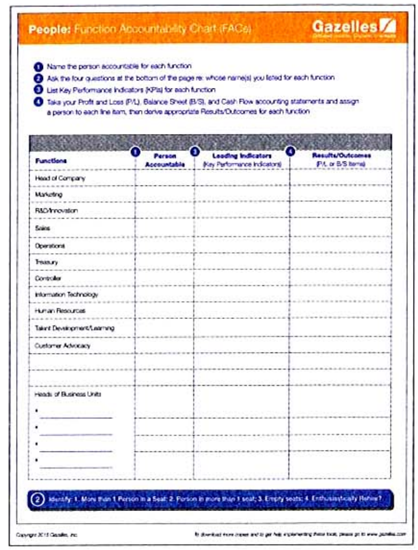
Rather than viewing financial wealth as an end in itself (as a wise guru once told Verne, "All assets become liabilities!"), see it as a resource for supporting the rest of your personal plan. Besides determining how much money you want to set aside for retirement, set goals for the amount of money you want to donate to causes and communities that matter to you over the next several years. Decide how much money you need to support activities with your family and friends, investing in experiences in the coming 12 months that create lasting memories. And note any wealth-producing assets or cash-draining liabilities you need to address in the coming months.

"All assets become liabilities!"

Overall, focus on how your wealth will flow through you in the service of others, rather than hoarding it. This seems to attract more wealth — the natural law of reciprocity. Lynne Twist's insightful book titled *The Soul of Money: Transforming Your Relationship With Money and Life* expounds upon this idea.

We hope you find the OPPP a useful planning tool for your life. Let's now turn our focus to the company.

Function Accountability Chart (FACe)


People: Function Accountability Chart (FACe)

Gazelles

1. Name the person accountable for each function
2. Ask the four questions at the bottom of the page re: whose name(s) you listed for each function
3. List Key Performance Indicators (KPIs) for each function
4. Take your Profit and Loss (P/L), Balance Sheet (B/S), and Cash Flow accounting statements and assign a person to each line item, then derive appropriate Results/Outcomes for each function

Functions	1 Person Accountable	3 Leading Indicators (Key Performance Indicators)	4 Results/Outcomes (P/L or B/S items)
Head of Company			
Marketing			
R&D/Innovation			
Sales			
Operations			
Treasury			
Controller			
Information Technology			
Human Resources			
Talent Development/Learning			
Customer Advocacy			
Heads of Business Units			
•			
•			
•			
•			

2 Identify: 1. More than 1 Person in a Seat; 2. Person in more than 1 seat; 3. Empty seats; 4. Enthusiastically Rehire?

The second one-page People tool — the Function Accountability Chart (FACe) — focuses on making sure you have the right butts in the right seats at the top of the organization (i.e., the "right people doing the right things right").

An organization is simply an amplifier of what's happening at the senior level of the company, which is one of the reasons our coaching partners do a quick employee survey as they start working with a business. If the survey reveals that the IT people are upset with marketing, there is likely an issue between those two functional leaders at the top.

The chart lists a common set of functions that must exist in ALL companies. Even start-ups have all these functions, only it's the founder(s) doing everything! In scaling the business, the idea is to figure out which function on the chart to delegate next.

Like Shine Lawyers' Morrison and Roche, who continue to promote and recruit new leadership as the business scales, you want to delegate the functions listed on the FACe tool to leaders who pass two tests (including culture fit):

1. They don't need to be managed.
2. They regularly wow the team with their insights and output.

The chart asks you to list one or two key performance indicators (KPIs) for each function. These KPIs represent the measurable activities each functional leader needs to perform on a day-to-day basis. The last column on the chart captures the outcomes expected for each function (i.e., who is accountable for revenue, gross margin, profit, cash, etc.). These outcomes normally represent line items on the financial statements.

When completed, this one-page accountability tool helps you diagnose where you have people and performance gaps on the leadership team.

As a general rule, you can move people up or over into these functional positions at any time. However, if you need to bring someone in from the *outside* to fill a senior leadership position, you should do this only once every six to nine months. It takes this length of time to find the right person, get him comfortable in the position, and transfer the DNA of the organization into his psyche. In turn, the new executive will need this amount of time to positively impact the organization enough to pay back his salary.

Now you can afford to bring in another leader. The rule is to take it slow when bringing outsiders into senior leadership roles. The exception is when the company is venture-backed and/or growing 100% a year and needs to bring on three or four key executives within a short period of time.

WARNING: *Whatever is the strength of a leader often becomes the weakness of the organization (e.g., if the founder is strong in marketing, the business may eventually find it's weak in this functional area). Why? Because leaders have a tendency to hold on too tight, strangling the efforts of those around them. Or the leaders figure they can "watch over the details," bringing in someone too junior to oversee the function vs. bringing on the powerhouse they really need. Instead, leaders must make a counterintuitive decision and find people who exceed their own capabilities in their area of strength, to prevent the company from stalling.*

Please read through the following instructions for completing the FACe tool. It often illuminates immediate changes that might need to be made at the top of the organization.

Completing Your Function Accountability Chart (FACe)

STEP 1

The first column lists the functions every business must support and provides a few blanks so you can add those unique to your business. There is also space to note discrete business units. Notice we don't list titles (CEO, COO, etc.). The idea is to focus on the jobs that need to get done.

1. Start by having each member of the executive team fill in the first blank column by adding the initials of the person they think is accountable for each function or business unit. It's acceptable if a function is outsourced (i.e., to an outsourced CFO or marketing consultant). If it's outsourced to a firm, list the main person accountable from the contracted company.

2. We've provided a couple of blank lines for you to add functions that might be unique to your industry or business (for example, a chief technical officer or a quality control person). There is also space to list the names of various business units. For Gazelles, these would include Gazelles International, Gazelles Growth Institute, GazellesPro, and the other divisions we support.

   NOTE: *When looking at business units farther down the first column, even though you might not have formal business units, you might organize discrete teams around customer groups, product lines, or locations. You can consider these quasi-business units.*

3. Compare lists to see if there's agreement among the members of the leadership team. There often isn't, even when it comes to who is the head of the company!

STEP 2

Once the team has agreed on the people accountable for each function, consider the four questions summarized at the bottom of the form:

1. *Do you have more than one person accountable for a function?* The founder might be sharing accountability for sales with another executive, or partners might all be listed next to "head of company." The rule is that only one person should be accountable; otherwise, there will be confusion. Having more than one name in a box is a red flag.

2. *Does someone's name show up in more boxes than everyone else's?* We recognize that in growth companies, leaders may wear multiple hats, but if one executive's name shows up three or four times compared to everyone else's one or two, that leader is either going to die young (a little dramatic) or one of the functions he or she owns will not be supported sufficiently. This is another red flag.

The FACe of Perly Fullerton

When James Perly and Mark Fullerton worked through the Function Accountability Chart (FACe) for their Ontario-based consultancy, Perly Fullerton, a problem immediately jumped out at them: There were six people in the room, but only three names were being put in the boxes. "The problem was that everyone was coming to us for everything," says Perly. "Even though we hired new people, we just never got rid of any of our senior responsibilities."

Although it was a long process, now everybody knows exactly who's accountable, including Perly and Fullerton. "Our roles became really clear in our own minds based on what suits us best for our personalities," says Perly. "Mark is more of a go-getter with lots of energy, so he's the chief operating officer because he drives things forward. I take on more of a visionary role [as president], focusing on strategy."

3. *Do you have any boxes with no names in them?* This often happens when someone says, "Hey, who's accountable for marketing?" and the response is, "All of us!" "All of us" really means "none of us," and the box should be left blank. This doesn't necessarily require you to hire someone. Let's take the customer advocacy box as an example. You may have seven or eight people who are overseeing various groups of customers. It's natural to conclude that this accountability is covered. The rule of accountability means one person must ultimately take ownership, however, so the person to whom these people report has overall accountability. But if that leader isn't doing anything active to monitor levels of customer delight and follow up, then this function will underperform. Rather than hire an additional person, you might choose one of the customer service reps to hold overall accountability, rotating this role among the reps every six months. Again, this doesn't mean that any of these people is the boss; it means they are to monitor the situation, ensure that customer-satisfaction feedback is gathered and reported to the leadership team at the weekly meeting, and alert the team if there are issues.

Dell's Empty Boxes

A company is never so big or sophisticated that it doesn't sometimes encounter "empty boxes" on its organizational chart. When Michael Dell took back the reins of computer company Dell Inc. in January 2007, he lamented that the chief marketing officer (CMO) position had been empty for two years even though Kevin Rollins had more than 20 executives on the executive leadership team. And indicative of Dell's customer service problems, there was no one leading the customer advocacy function. So Dell immediately hired Mark Jarvis from Oracle to be the CMO and moved over Dick Hunter from manufacturing to lead the customer service function. That was the beginning of a turnaround and repositioning of Dell that led to Michael taking the company private again in 2013.

4. *Are you enthusiastic about the person you have in each box?* If the leader isn't getting the job done, then a change may need to be made. Maybe this leader is in the wrong seat or in too many seats. Maybe there are performance issues. Maybe a person is talented but doesn't fit the culture (this often happens when a "big company" executive is brought into a growing firm).

ACTION: *Discuss these four questions and decide where there are glaring gaps in the leadership team.*

WARNING: *CEOs often avoid these decisions because they involve executives who have become dear friends. We recognize that this is a touchy subject, but it must be faced if the organization is to grow. One option is for some of the early team members to help launch a new product or division. They are usually more comfortable in a start-up situation or working on a smaller team. And several of the early leaders might be relieved to have the burden of an increasingly important and complex function taken off their shoulders. You won't know until you have these crucial conversations.*

STEP 3

The second blank column is for listing one to three KPIs for each of the listed functions. These are intended to be leading indicators, measuring the daily and weekly activities of a particular leader and meant to drive superior results. For help in selecting KPIs appropriate for your industry and/or function, visit *KPILibrary.com*. For more general KPIs, we recommend the book *Key Performance Indicators: The 75 Measures Every Manager Needs to Know,* by Bernard Marr.

WARNING: *A common mistake is simply noting down KPIs that are representative of the daily and weekly activities of the person listed for a particular function. It's critical to zero-base your KPI decisions. Do this by covering up the names listed in the "Person Accountable" column (metaphorically or physically) and then decide on KPIs for each function that align with the business model of the company. Then consider if the person in the job function has the skills and aptitude to deliver on those KPIs. A mismatch might indicate a potential problem.*

"Head of Company" KPI

What is the most important KPI for the head of the company? Many might suggest vision, but how do you measure that? Others might suggest more tangible measures, like return on investment or profit, but these are outcomes more suitable for the last column on the FACe tool. Again, the idea of a leading indicator is to measure the specific actions that lead to results. In the case of the head of the company, it's simply the ratio of all the other boxes on the FACe tool that are right (i.e., the main job of the head of the company is to make sure she has the right people doing the right things right). And when many founders/CEOs realize this, they often bring in someone else to head the company so they can focus on R&D or marketing or customer advocacy. That's why we emphasize separating titles from functions.

The late W. Edwards Deming, who led the quality revolution around the world, believed that the fundamental job of a leader is prediction. The right KPIs, along with sufficient market intelligence (discussed in "The Data" chapter), help executives navigate what are expected to be turbulent markets throughout the foreseeable future.

ACTION: *In the third column of the FACe, note one or two KPIs — leading indicators — for each function and business unit.*

STEP 4

For the fourth column of the FACe — "Results/Outcomes" — pull out a recent detailed Profit and Loss (P&L) and Balance Sheet (B/S) statement and assign a person accountable for each line item. Then discuss the same four questions we asked earlier about the people listed for the functions (summarized at the bottom of the FACe tool):

1. *Do you have more than one person accountable for any line item (like revenue)?*
2. *Does someone's name show up next to more line items than anyone else's?*
3. *Do you have a line item with no name next to it (is someone watching telecommunication expense)?*
4. *Are you enthusiastic about the person you have accountable for each line item?*

Again, don't confuse accountability for authority — recall the earlier cash example within Gazelles. And, as with the functions, spread the workload evenly among the leadership team, with just one person ultimately accountable for each line item.

It was Jack Stack, founder and CEO of SRC Holdings Corporation and author of the classic book *The Great Game of Business: The Only Sensible Way to Run a Company*, who argued that the Phoenician monks left out a critical column on the first accounting statements they created in the late 1400s: the "Who" column. There should be a person clearly accountable for each line item, even if it's a middle or lower manager, when considering a highly detailed P&L and B/S.

This exercise has led to some of the most important accountability discussions we've ever facilitated in companies. Who is accountable for overall revenue? Who is protecting gross margins from overly zealous pricing concessions? Is anyone watching telecommunications expenses? And for those enamored of formal organizational charts (we're not — in growing firms, they tend to be outdated by the time they are printed), consider rotating the P&L clockwise 90 degrees and aligning each executive with one of the major line items (CFO owning profit to the left; COO owning gross margin in the middle; VP of sales owning revenue to the right; etc.). Then you have middle managers owning the next layer of line items and frontline managers or employees owning the last detailed line items. Finish by listing the head of the company at the top of this rotated P&L and you have a useful accountability chart from a results standpoint.

ACTION: *This is a great exercise for the CFO or person in charge of accounting to lead. Go through your financial statements and decide who is accountable for each line item. Then pick the most important line items for each of the functions listed on your FACe tool and transfer the answers to the "Results/ Outcomes" column.*

NOTE: *Most organizations, at some point in time, develop detailed job descriptions for all the key roles in a company ... a huge project. We are not big fans of job descriptions and prefer Topgrading's Job Scorecards, which you'll learn about in the next chapter.*

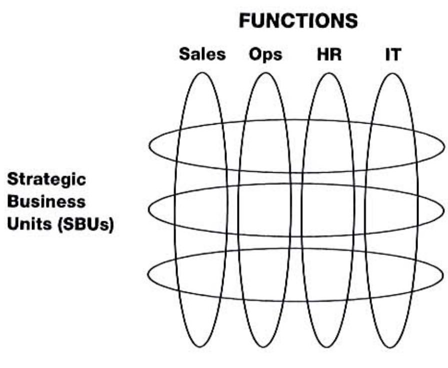
Jim Collins, in his book *How the Mighty Fall, And Why Some Companies Never Give In*, shares a key insight he's discovered when working with executive teams. When he initially asks them to introduce themselves, he finds that executives with good companies tend to share their titles, whereas executives at strong and great companies share what their accountabilities are in a very measurable fashion, e.g., "I am accountable for driving revenue into this company."

A concise FACe, with single points of accountability and relevant KPIs and outcomes, aligns with Collins' insight about the leaders of great companies.

Organizational Structure – Beyond Functions

The first natural organizational split is by function. When the business gets above 50 employees, the organization needs to start aligning teams around projects, product groups, industry segments, and geographical regions. This is the beginning of what is commonly called a matrix organization (see diagram).

The Almost Matrix



The pressure to create these new business units usually comes from customers. They complain that they don't know whom to call to get help. They get the runaround when they finally reach someone. And they feel overwhelmed by the crush of communications that come from multiple business units. Internally, employees may not know from whom they should take direction.

Unless you get accountabilities straight, productivity and innovation will slow, and you'll waste a lot of time oscillating between centralizing and decentralizing various shared functions among the business units.

To navigate this organizational transition, the functional heads, who have been used to driving the business, need to adapt. They need to become more like coaches/advisors to the business unit leaders, rather than acting as their "bosses." In turn, the heads of the business units need to lead as if they are individual CEOs. You don't want weak "yes-people" heading up your business units.

This transition is hardest for the traditional functional leaders — especially for those who were around in the earlier start-up phase. Used to making unilateral decisions, many will have to switch their style from telling to selling as they spend more time outside the organization garnering best practices and then sharing what they've learned among the business unit leaders. And respect for the functional leaders' decisions will have to be earned, not blankly accepted simply because of their position.

Because of these needed transitions, it's often best to have some of the original functional leaders head business units — maybe head up expansion to a new country or lead the launch of a product line — so they can maintain direct operational control. New functional heads are then recruited who have specific domain expertise (sales, marketing, HR, etc.) and will be more collaborative in working with the business unit leaders.

Who Is Boss in a Matrix Organization?

A matrix organization is also a challenge for employees since they feel like they have multiple bosses. Employees might be serving several business units, in addition to having a functional head overseeing all their activities.

The key is being clear who decides whether an employee gets a raise or a promotion. The mistake is leaving this decision solely to the functional heads. Instead, take the situation where Tom is providing marketing support to several product lines. The functional head of marketing for the company must see his or her role as a trainer/coach to Tom and make it clear that his performance is assessed based on feedback from the heads of the business units Tom serves — and not on what the functional head alone thinks. This way, Tom remains responsive first and foremost to the business units.

Matrix organizations are tricky, and you should seek expert guidance (we can help). Otherwise, companies can waste a lot of time debating about the centralized or decentralized structure, with endless fights over overhead allocations and accountabilities.

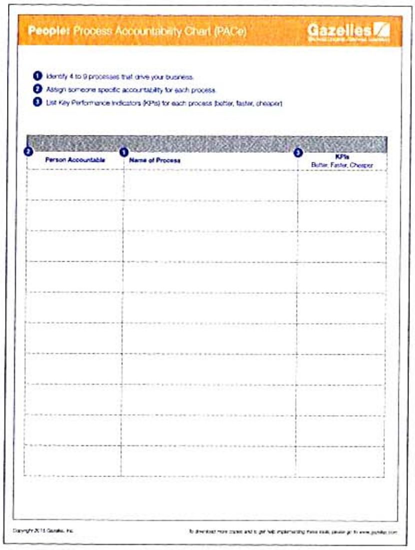
Once you have established clear accountabilities, you'll know very soon if you've gotten it right. Customers will be happy, and everyone on your team will be clear on his or her role in serving customers. If you notice patterns of negative feedback from customers — or see internal signs that your "cells" are not healthy — it's time to revisit the question of organizational structure.

Remember, your company is a living organism that needs to survive in an environment that's always changing. To thrive, it has to be able to adapt. Charles Darwin found that survival is determined by the ability to adapt to circumstances.

Process Accountability Chart (PACe)

The third one-page People tool — the Process Accountability Chart (PACe) — lists who is accountable for each of the four to nine processes that drive the business and how each process will be measured to guarantee it's running smoothly.

Example processes include: developing and launching a product; generating leads and closing sales; attracting, hiring, and onboarding new employees; and billing and collecting payments. Almost all these processes cut across the various functions, requiring a coordination of activities that gets more complicated as the organization scales up.


People: Process Accountability Chart (PACe) Gazelles

1. Identify 4 to 9 processes that drive your business.
2. Assign someone specific accountability for each process.
3. List Key Performance Indicators (KPIs) for each process (better, faster, cheaper)

2 Person Accountable	1 Name of Process	3 KPIs Better, Faster, Cheaper

To keep these processes streamlined, we strongly recommend that companies implement the principles of Lean, a management practice invented by Toyota that is as applicable to service businesses as to manufacturing companies. (It's no accident that Eric Ries called his book *The Lean Startup*.)

Lean is an approach to process design focused on eliminating time wasted on activities that don't add value for customers. Using Lean practices, John Stepleton of Research Data Design (RDD) realized a 28% productivity improvement in his call centers within a week; Jeff Booth, co-founder and CEO of Vancouver, Canada-based BuildDirect, was able to dramatically speed up the time it takes to get a vendor up on his building materials website; Mike Jagger saved $60,000 in IT costs from his first Lean session at Provident Security; and Ken Sim, co-founder of the award-winning franchise Nurse Next Door, was able to handle a 100% increase in business in 2008 without adding any headquarters staff.

We are so bullish on Lean that we're confident that the first company in any industry to fully embrace this methodology will dominate. And for those thinking that Lean is synonymous with the overly complicated and expensive Six Sigma approach to quality improvement, you can relax. Lean, though it requires a real change in mindset, uses a few very simple tools to drive dramatic improvements.

Following are four more detailed examples of how the middle-market company leaders just mentioned applied Lean to their processes. We'll then follow with specific how-tos for using the PACe one-pager.

Power of Lean

John Stepleton — who built 500-person research company RDD, listed three times on the Inc. 500 — was the first CEO to turn us on to Lean as a powerful tool for middle-market service firms. He applied it so successfully that his former firm was recognized by the Northwest Shingo Prize for its innovative implementation of the Lean principles.

If you're not sure that Lean is right for your business, Stepleton emphasizes, "I implemented Lean into my call center business, where I had $10/hour employees engaged in continuous improvement programs, that realized productivity improvements of 28% in time periods as short as one week."

One of the keys to Lean is objectively modeling and measuring productivity and then using simple visual systems to eliminate costly mistakes. In Stepleton's case, his team color-coded research forms to make sure the appropriate number of subjects was called for each campaign.

Operational Excellence

"One of the things that a company can control in any market is operational excellence by removing waste in a system," notes Jeff Booth, co-founder and CEO of BuildDirect. In doing so, Booth has dramatically sped up the time it takes to get a new vendor up on his building materials website.

Booth engaged Guy Parsons, early partner with Jim Womack at the Lean Institute, to help him with his initiatives. Booth also produced a five-minute video interview of Parsons as a way to explain to his team and others how they are using Lean. You can visit *scalingup.com* to view the video.

Eliminating Waste

"Lean describes waste as anything that happens in a company that a customer would not want to pay for," explains Mike Jagger, CEO of Vancouver, Canada-based Provident Security. "So our first initiative was to divide all of our costs into two columns: things that add value to our clients and things that don't.

"For instance, we have a huge IT investment that we require for our monitoring business, which adds client value," continues Jagger. "However, our clients don't care who hosts our email... so we cancelled our scheduled server upgrade for our exchange servers and migrated the entire company to Gmail."

First-year savings on hardware, software, management, and support were just under $60,000. "We have another great tool now to help us look at the business in a very different way," Jagger says, with regard to Lean.

Bored Billing Accountant

Ken Sim sent us a partial list of dramatic outcomes from Nurse Next Door's first year of implementing Lean, including growing the business by 100% the following year with eight fewer people in the head office. That's a huge net gain in productivity.

NOTE: *Sim emphasizes that there were eight fewer people because of natural attrition. "We will never let go of a person because of Lean," exclaims Sim. "Otherwise, Lean will die as an initiative. No one is going to implement stuff that will end up costing them their job."*

Case in point: Nurse Next Door's payroll and billing accountant, Noreen, was working evenings and weekends before implementing Lean. A year later, with twice the payroll, she was accomplishing the job in half the time. When she mentioned in a huddle that she had nothing to do because of her success, the leadership team suggested she take some time off as an example and incentive for everyone else in the office to pursue Lean initiatives. Nurse Next Door is now teaching these Lean techniques to its franchise partners, so they can work on growing their businesses vs. doing payroll all day.

Parsons, like Sim, warns that Lean is not about reducing headcount. It's about reducing waste. Redirect the time and energy your people get back from eliminating wasted efforts, devoting them to serving customers, making sales, and growing the business.

Nurse Next Door's additional gains from Lean include doubling the current volume of its call center without adding headcount, while reducing fees to franchise partners; eliminating process steps to ease franchise partners' work flow and make more money; reducing inventory levels to almost zero so franchise partners require much less capital to start and run their businesses; and streamlining the process for adding new franchise partners.

Adds Sim: "It used to be a challenge to add one new franchise partner each quarter. Now we add two per month and can add up to five per month without breaking a sweat! More important, our Lean initiatives are a major reason (but not the only one) that we and our franchise partners have been able to thrive during a terrible economic period."

Completing Your Process Accountability Chart (PACe)

STEP 1

Gather your executive team together (it's smart to include some middle managers) and name the four to nine key processes driving the business. Several of the processes — like "How do we bill and collect from customers?" — will be similar for most companies. However, there will be a few that are specific to your firm or industry. In our experience, this chart takes a couple of 90-minute sessions to complete. Here are the seven processes for Barcelona-based Softonic, the world's leading Web portal for downloading free, safe software:

- Recruitment
- Product development
- Sales to cash
- Innovation
- People development
- Customer satisfaction
- Content creation and publication

ACTION: *Discuss and agree on the four to nine key processes in your organization.*

STEP 2

Next, assign accountability for each process to a specific person. This can be a more difficult decision than initially perceived. Since processes cut across various functions, there might be some turf battles between the functions. In this case, remind everyone that assigning someone accountability for a process doesn't mean that he is the new boss of everyone who touches the process, nor does he necessarily have increased decision-making authority. His job is to monitor the process (time, cost, quality), let the team know if there are any issues, and lead a regular meeting to fix or improve that particular process. Ideally, this person will have some cross-functional experience.

The person to whom all these process leaders report is usually the head of operations (a COO type). Operations people are generally systems-focused. You want a head of operations who is obsessed with process mapping and improvement — or better yet, experienced in implementing Lean.

ACTION: *For each key process you've identified, decide who within the organization will be accountable. These people are then accountable to the head of operations.*

STEP 3

Identify a few KPIs to track each process. As with the FACe tool, the Process Accountability Chart (PACe) requires that each process have indicators (time, cost, or quality) that will signify its health.

One of the most important KPIs for processes is time — in either number of days (to deliver) or number of hours (to produce). It applies to almost every industry, as customers normally want things better, faster, and cheaper, whether we're talking about a product or service. Although time is not the only KPI, it does drive efficiency in your business and customer satisfaction and is the key measurement in the Lean process of designing and streamlining processes.

ACTION: *List one to three KPIs for each process to measure its speed, quality, and cost.*

Following are a few resources that can help you improve the PACe of the organization.

Mapping the Process

Once you have completed your PACe, gather someone from every function that touches a specific process, including a few customers who are affected by the process (if possible). Using colored Post-it Notes to represent each function (sales is green, accounting is blue, etc.), map out the steps and decision points as the process currently flows. Then step back and begin streamlining the process, eliminating wasteful steps and removing obstacles.

For instance, think about how a certain piece of paper (physical or electronic) moves from a website, to an email inbox, to an order fulfillment desk in the warehouse, including emailed confirmations and order tracking systems for the customer. You'll be surprised at the number of steps and people required for a simple process.

Along the way, set specific KPIs at critical steps and decision points, so the process can be monitored continuously. The beauty of identifying and documenting the processes in your business is that it provides you with an excellent how-to manual for new employees or existing ones who are off track.

It's important to revisit and examine one process every 90 days as part of your quarterly planning process. Like hallway closets and garages, these processes get junked up and need to be recleaned periodically. With four to nine processes, each will get examined roughly every 12 to 24 months, which is sufficient to keep your company running drama-free.

ACTION: *Assemble the appropriate people for each key process, and list, debate, and decide the steps and decision points for that process.*

NOTE: *As mentioned earlier in the PACe section of this chapter, we highly recommend using the tools from Lean to both map and improve your processes. Take a look at Paul Akers' "2 Second Lean" videos on YouTube, including how to set up a "lean desk."*

Checklists

Once you've identified and mapped your processes, you can then bring them to life every day through checklists. Checklists are valuable for key parts of your four to nine processes and help ensure that the right things happen.

In his book *The Checklist Manifesto: How to Get Things Right*, Dr. Atul Gawande shares how his research on improving success in surgeries came down to a simple surgery checklist. Among Gawande's findings: "[Checklists help] with memory recall and clearly set out the minimum necessary steps in a process. ... In this one hospital, the checklist had prevented forty-three infections and eight deaths and saved two million dollars in costs. ... [Checklists] provide a kind of cognitive net. They catch mental flaws inherent in all of us — flaws of memory and attention and thoroughness. ... I have yet to get through a week in surgery without the checklist's leading us to catch something we would have missed."

Apple stores draw more people in one single quarter than visit Disney's four major theme parks in one year. How does Apple do it? One reason is that it is known for delivering fantastic customer service. An article appearing in *The Wall Street Journal* shared some insight on Apple's checklist of simple and easy-to-remember steps of service training, the initial letters of which spell out APPLE:

- Approach customers with a personalized warm welcome.
- Probe politely to understand all the customers' needs.
- Present a solution for the customers to take home.
- Listen for and resolve any issues or concerns.
- End with a fond farewell and an invitation to return.

We'll discuss the power of checklists more in the "Execution" section of the book. In the meantime, if you're experiencing some drama, maybe a simple checklist will help.

To conclude, the strength of your People comes from the right leadership doing the right things right (FACe); and the right systems and processes supporting these people to keep the business flowing (PACe). With the combination of the right FACe and the right PACe, you have the key people and process ingredients for a great company.

4

THE TEAM
Attracting and Hiring

EXECUTIVE SUMMARY: *Attracting and hiring A Players, at all levels of the organization, is as critical as landing the right customers. This requires the active participation of the marketing function in the recruiting process and the use of Topgrading methodology in the interviewing and selection process. With both, detailed in this chapter, your company will have a huge pool of candidates from which to choose enough "strange" people (who fit your differentiated strategy and culture) to scale up the business.*

NOTE: *The cost of a bad hire is 15x his or her annual salary, according to Topgrading, so it's important to get the recruiting and selection process right.*

When Scott Nash needed a CFO for MOM's Organic Market, simply asking a recruiter to scour the country for a financial whiz who knew the grocery industry wasn't going to cut it. Nash founded MOM's in 1987, at age 22, as a home delivery and mail order company based in his mother's garage in Maryland. It has a unique culture, built around the company's Purpose: *to protect and restore the environment*. Now a chain of 11 stores with 700 employees, MOM's is willing to walk away from potential sales to stick with its core commitment. For instance, it bans the sale of plastic water bottles in its stores. So MOM's challenge was recruiting a top-notch CFO willing to embrace the spirit of the company's Purpose while navigating the financial trade-offs required to "live" it.

Gene Browne, who founded Galway-based The City Bin Co. in 1997, was facing a similar challenge recruiting people to work on the back of his garbage trucks and then keeping them. Though his business was recognized as one of the Best Managed Companies in Ireland by Deloitte for four consecutive years — from 2009 to 2012 — and won Deloitte's Gold Standard Award in 2012, CEO Browne still couldn't easily attract and hold on to employees to sling garbage cans. It's a dirty and physically demanding job requiring an early start in the morning.

Follow along as we share how Nash, Browne, and other leaders recruit and hire tough-to-find talent.

Get The Best Talent

Before starting your search for a key executive or frontline associate, create a Job Scorecard (vs. the standard job description). A Job Scorecard details a person's purpose for the job, the desired outcomes of this individual's work, and the competencies — technical and cultural — required to execute it. This tool is part of Topgrading, a methodology for hiring A Players, co-created by Brad and Geoff Smart.

We consider it the best interviewing and selection system available. It has a proven track record of helping leaders hire the right person more than 90% of the time vs. the 25% to 60% success rates achieved with "feel-good" conversations, testing, or standard behavior-based interviewing approaches. And considering the costs of making a bad hire, it pays to get this process right.

– Sample Job Scorecard –

Position: Inside Sales Representative
Location: Chicago, IL

Mission:
The core mission of the Inside Sales Representative is to increase revenue from new and existing customers. Inside Sales Representatives will be expected to make cold calls in addition to following up on leads from marketing activities. Customer contact is mainly via telephone and e-mail. Inside Sales Representatives sell advertisements in a specialized medical trade publication and sponsorships for an annual conference.

Accountabilities

	Metric	Rating (A, B, C)	Comments
Generate revenue	• $15,000 monthly within 3 months • $40,000 monthly within 12 months		
Average sale size	$4,000+ within 12 months		
Customer volume	• Closes sales with at least 4 customers monthly within 3 months • Closes sales with at least 10 customers monthly within 12 months		
Activity (tracked by completion of daily activity sheets)	• 50 cold calls per day • 5 scheduled sales presentation phone appointments per day • At least 10 proposals sent per week		
Documentation	Completes all necessary documentation on time		

Key Competencies

- **Integrity**
- **Results-Oriented**
- **Excellence**
- **Customer Focus**
- **Resourcefulness**
- **Listening**
- **Energy/Drive**
- **Work Ethic**
- **Goal Setting**

An A Player, by the Smarts' definition, is someone in the top 10% of the available talent pool who is willing to accept your specific offer. Read that definition again. They are not implying that you have to pay beyond what your business model can sustain. They do mean that you need to attract the largest and most capable talent pool excited about the job and willing to accept your compensation package (e.g., McDonald's has the same chances of hiring A Players as Goldman Sachs), and have the tools to select the best people from this group of prospects. The Job Scorecard is the starting point.

A central element of a Job Scorecard is the handful of specific and measurable outcomes that a potential hire needs to accomplish over the coming one to three years. While a job description tends to list what people will be doing (e.g., coaching sales reps, building client relationships), a Job Scorecard describes the outcomes you want from such activities ($8 million in revenue, seven new S&P 500 clients, a 100% contract renewal rate among the customers the trash collector serves). This is a critical distinction between the job description (hope you've not wasted time creating these) and the Topgrading Job Scorecard.

Being specific about outcomes allows you to directly evaluate each candidate's capacity to actually deliver these results. Can you really see the person you're interviewing taking your top line from $20 million to $35 million over the next three years? Is there anything in her history of results that supports this conclusion? (For more practical insights about building Job Scorecards, read Bluewire Media's excellent blog on the topic.)

Another central element is the list of candidate competencies that align with your culture and strategy. As experienced leaders discover, it's more important to hire for this kind of fit than for specific skills, so long as a person has the capacity to learn and grow (though it's best if you can find someone who's a match in both cultural values and skill set). The rapidly changing requirements of most professions require a constant updating of skills, anyway. On the other hand, cultures are like immune systems and will spit out very capable people who don't align with its norms (Core Values).

In addition to seeking culture fit, it is critical to hire people who can deliver on the Brand Promises and activities underpinning your strategy (see "The 7 Strata of Strategy" chapter). The City Bin Co. looks for garbage collectors who possess the competencies to deliver on its customer service promise. Southwest Airlines needs flight attendants who can deliver on its Brand Promise of "Lots of Fun."

These central elements of the Job Scorecard — the outcomes and competencies — drive the recruiting, interviewing, and selection process.

The Best Hires

Good managers play checkers while great managers play chess, according to researchers Marcus Buckingham and Curt Coffman, authors of *First, Break All the Rules: What the World's Greatest Managers Do Differently*. In checkers, the pieces all move in the same way, whereas in chess, the pieces move differently, allowing you to bring different strengths to the game.

In scaling up the people side of your business, it's crucial that you start playing chess sooner rather than later. Think of "The A-Team" of action television fame — a ragtag group of renegades bringing their individual and unique talents, personalities, and strengths together to act on the side of good!

You, too, need a team of absolute specialists — chess pieces — to achieve your ambitious goals. In our experience, the learning curve for well-rounded generalists (checker pieces) is simply too long and too steep in today's fast and complex world. This is why we encourage leaders to look for "idiot savants" (i.e., people who are extremely talented at one particular thing and possibly quite bad at others). As Geoff Smart points out, "You would not let your family-practice doctor perform open-heart surgery on you." Teams need to be well-rounded, but their individual members don't have to be. Leaders don't always grasp this, which explains why the traditional "feel-good" interview has such a high failure rate. We have a tendency to hire people most like ourselves and end up with a company of look-alikes vs. tapping the diversity of talent, backgrounds, and personalities needed to drive the fruitful debate, innovation, and differentiation that powers growth.

Daniel M. Cable goes one step further and suggests you hire people who are downright strange. Author of *Change to Strange: Create a Great Organization by Building a Strange Workforce* (a book that we strongly suggest you read), Cable notes, "If your competitive advantage depends on your people creating something valuable and distinctive, then your workforce can't be normal." Therefore, if you want to have a differentiated strategy, you can't hire, compensate, and have the same HR systems supporting the same people as your competition.

NOTE: *You need a "strange" culture and a "strange" strategy to differentiate your firm in the marketplace. This is why it's so critical to discern the real Core Values underpinning your culture; and create the elements of an industry-dominating strategy. (How to do both is detailed in the "Strategy" section of this book.) With these values and strategic attributes, you can then generate Job Scorecards, as described above, and use them to identify the right "strange" people to hire.*

Recruiting Is a (Guerilla) Marketing Function

The best people to consider first are those with whom you have already worked. Culture fit can be evaluated in interviews and tests, but nothing substitutes for your own real-time observations of someone over prolonged periods of time.

However, most growing firms will exhaust such lists fairly quickly, so you will need clever ways to attract a sufficient applicant pool of specialists who fit your culture. Research strongly suggests that you need a minimum of 20 applicants per position (frontline to senior) if you want to dramatically increase your odds of hiring A Players. Sadly, because of the stress that comes with growth, many leaders simply hire whoever comes along and can fog the mirror (e.g., "You're breathing. You're hired!").

This is why marketing is such a critical function to scaling up a business. The marketing team must be as actively involved in recruiting a steady stream of potential employees as it is in attracting potential customers, yet most organizations fail miserably in this area. They think the perfect candidates will fall from the sky. The best candidates are probably working somewhere else and need a reason to consider your organization. And because budgets are always tight in growing firms, you must find clever marketing approaches to attract the specific kind of "strange" talent you're seeking.

One of the classic recruiting campaigns was launched by Google in its early years. A single billboard (placed near Yahoo's headquarters — "Fish where there are fish"), with no mention of the company, simply displayed a sophisticated math riddle. The mere intrigue of the billboard generated millions of dollars of free publicity as the technorati went nuts over the question of who placed the ad. This, in turn, exposed the ad to tens of thousands of potential hires.

The actual solution to the puzzle led to a series of websites with additional equations to solve. Eventually, Google identified itself as the author of the billboard and said: "One thing we learned while building Google is that it's easier to find what you're looking for if it comes looking for you. What we're looking for are the best engineers in the world. And here you are."

This kind of guerilla marketing is within any company's reach. Atlassian, an Australian software company, hired 15 developers after it toured 15 European cities with a flashy bus that bore this message in large letters: "Europe, we're coming to steal your geeks" — generating loads of free publicity as news agencies reported on the unusual bus tour. Employment Group, a Michigan staffing firm, invited the local business journal to cover its quarterly meetings themed around various rock bands. This landed the company several fun articles and resulted in a score of unsolicited quality résumés. It is easy to stand out if you use whatever approach fits your culture and you show some originality.

MOM's Goes Fishing

To find the ideal CFO candidate for MOM's Organic Market, rather than advertise on job boards or in the local *Washington Post*, CEO Nash cast a line where those mostly likely interested in his company's Purpose tend to hang out. He placed an ad for a CFO on Treehugger.com, a green-living and environmental news site. The ad asked questions chosen to help the company attract a financial pro who fit into the culture of MOM's: Do you want to work for a David, rather than a Goliath? Are you an entrepreneur in a CPA's body? Would you rather come to work in jeans? (To read a copy of the full ad, go to *scalingup.com.*)

Bingo! MOM's received 40 résumés in a week from a group of great candidates who clearly understood and appreciated the company's Purpose. Ultimately, Nash hired Kelly Moler, who had the requisite talent and shared the team's green values. Eight years later, she has helped the profitable company navigate the challenges of growing to $130 million in annual revenue amid competition from giant players like Whole Foods.

MOM's has taken a similar approach to attract candidates in a variety of other positions, from grocery baggers to executive-level jobs. For instance, on the "Join us" page on its website, a recent advertisement said:

You:

- *are really interested in electric vehicles*
- *appreciate a good debate, even with your boss*
- *figure out how to fix it instead of who's to blame*
- *paid for your own stuff when you were a teenager*
- *have pulled recyclables out of the trash*

We:

- *work to protect and restore the environment*
- *like real food*
- *aren't afraid to make mistakes*
- *care more about your intelligence and values than your experience*

The ads have helped the company save time and money on attracting and retaining talent. "Ten years ago or so, before we did a lot of this stuff, people were churning in and out," recalls Nash. The typical candidate, he says, "was someone who wanted a paycheck. MOM's was a stepping-stone for people to go someplace better." Since MOM's tailored its recruitment strategy to its core culture, he says, "retention rates have just skyrocketed. It seems to be easier to hire people and find people." The ad, he notes, "is an example of how we give our company culture and value a high priority."

Appletree Answers, whose success in tackling employee turnover we'll discuss in "The Core" chapter, typically receives 500 to 600 applicants for every open call-center position it has — attributable to its reputation as a great place to work. Austin-based Rackspace Hosting, a longtime Rockefeller Habits practitioner, received 52,000 applicants for 569 openings in 2013, blowing away the recommended 20:1 ratio — again, driven by a stellar reputation. Rackspace has made *Fortune's* list of the 100 Best Companies to Work For four years in a row (climbing to #29 in 2014) and counting.

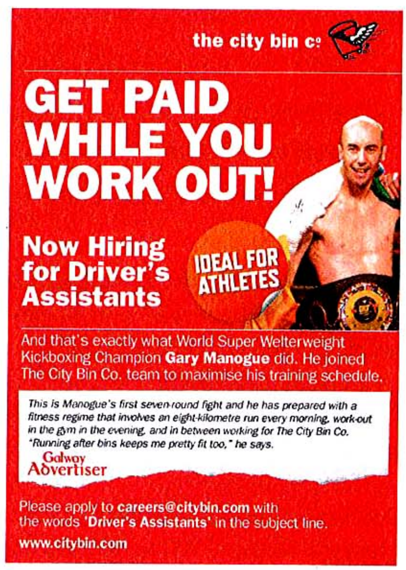
NOTE: *Given that even Harvard's record-low acceptance rate for the Class of 2017 was 5.8% (2,029 admissions out of 35,023 applicants), it's been noted that it's harder to get a job at Rackspace than to get accepted into an Ivy League school!*

Making it onto Best Places to Work lists, even local ones in your region or city, is a clear sign of an attractive workplace that will draw applicants to your company. A book written by the CEO (something we strongly recommend); a regular column in the local biz journal; a popular blog; and/or regular LinkedIn Influencer posts are great recruiting (and marketing) tools and ways to grab attention in an industry.

The City Bin Co.'s Gene Browne was winning similar workplace awards and garnering excellent local attention, yet he needed to get creative in attracting the right people to work on the back of his garbage trucks. Hearing Dan Cable, author of *Change to Strange*, speak at a Young Presidents' Organization program at London Business School, Browne wondered:

1. How can we expect our employees to be extraordinary and differentiate the company if we use the same hiring and onboarding methods as competitors?
2. What characteristics describe our ideal workforce that our competitors could not or would not use to describe theirs?

For Browne to try to differentiate his waste collection company through service is tricky, since the people working on the back of the trucks are the ones who can make or break a service experience. Yet shortly after Dan's lecture, something "strange" happened. A young man named Gary Manogue applied for a back-of-the-truck job because (a) he saw it as a chance to do part of his daily workout while also being paid and (b) the early start and finish times suited his lifestyle. Gary was a competitive kickboxer and had ambitions to win a world title fight. He needed to train as many hours a day as possible. In December 2013, Gary became the world super welterweight kickboxing champion. In a pre-fight interview, the *Galway Advertiser* noted:



> *"This is Manogue's first seven-round fight and he has prepared with a fitness regime that involves an eight-kilometre run every morning, work-out in the gym in the evening, and in between working for The City Bin Co. 'Running after bins keeps me pretty fit too,' he says."*

Based on this chance situation, The City Bin Co. has since developed a hiring campaign aimed at unemployed young men (no shortage of these in Ireland) who are big into fitness, asking, "Would you like to be paid for your daily workout?" The company is advertising in local gyms and letting word-of-mouth do the rest. These young men do not perceive the job in the same way as the typical young person who is handing out CVs looking for a job.

Like MOM's and The City Bin Co., many growth companies realize that to achieve their goals, they need the right people on the bus. But in many industries, these folks aren't just waiting at the bus stop. And you won't find them solely by advertising on job boards. The key to finding them, as Nash, Browne, and others have discovered, is by creating a recruitment strategy that reflects your Core Values and Purpose and then using your marketing skills to reach the right potential pool of talent.

The Topgrading Interview

Once you have attracted a large number of qualified candidates, which significantly increases your chances of finding A Players, a rock-solid evaluation process (not your gut feeling) is needed to bring the numbers down from 20 to 10, then to three, and finally to the one top candidate who will deliver 150% of your Job Scorecard.

At MOM's, the online job application asks questions such as "What companies do you admire?" to get a sense of a candidate's values. "That gets us to a place where we know what is important to them," says Nash. The company also asks why applicants are interested in MOM's. "Some people say they want to work for MOM's because we're in a booming industry. They want job security and some money. That's okay, but it has nothing to do with our values."

These gatekeeper questions, along with various online tests we recommend — Assess Systems' wide range of pre-employment tests and OMG's Sales Assessments among them — are very helpful in narrowing your long list to the final five or 10 candidates.

At this point, it's time to interview. And as mentioned above, the process we recommend is Topgrading. For an excellent overview, read Geoff Smart and Randy Street's book *Who: The A Method for Hiring*; to learn the details of the process, read Bradford D. Smart's book *Topgrading: The Proven Hiring and Promoting Method That Turbocharges Company Performance*. We also recommend that at companies doing regular hiring, at least one person become a Certified Master Practitioner through an online course at *scalingup.com* that includes several hours of video instruction by Brad Smart; interaction with other practitioners; and one-on-one coaching with one of Smart's certified trainers.

The Topgrading methodology includes a screening interview used to further narrow your list from 10 to the top three candidates. This interview consists of five powerful screening interview questions. They work for any position for which you're hiring and can be addressed in 30 to 45 minutes over the phone or in a short meeting.

Once you're down to the top three candidates, it's time for the Chronological In-Depth Structured (CIDS) interview — a thorough three- to four-hour interview covering a candidate's entire career history, with the objective of discovering behavioral and performance patterns that are likely to repeat themselves at your workplace. When hiring, bear in mind that past performance is the best indicator of future performance.

The length of this interview offers several benefits:

1. A Players like a vigorous process and are leery of companies that make it too easy.
2. "Professional" interviewees can't keep up the façade for hours.
3. Meanwhile, those who are not initially comfortable will have time to relax and open up.
4. Besides, what's three to four hours now vs. thousands of hours of headaches if you hire the wrong person?

NOTE: *A three- to four-hour interview is appropriate for a middle or senior leader; one to two hours might be more suitable for entry-level or less experienced candidates with limited work history.*

While Topgrading was initially designed for senior executives at General Electric, it works at all levels. Speed Wire, a cabling contractor headquartered on Long Island, grew from 25 employees to 325 (mainly technicians) in one year, relying on Topgrading to make sure all its hires were A Players. Kevin Donnelly, founder of Speed Wire (now a MasTec company), was thrilled with the results. "We can't believe the caliber of people it has helped us hire. We couldn't have done it without Topgrading," he says.

At MOM's, Nash will lead the three- to four-hour Topgrading interviews with candidates for major positions, like successful CFO candidate Kelly Moler, while MOM's managers will do abbreviated interviews with other employees. "It's the most effective method I've come across," says Nash. The company will go through each candidate's entire work history, as recommended, and ask questions about whom they reported to at each job — including the spelling of that boss's name, to show that the company is serious about checking references. A typical follow-on question is, "What will so-and-so say about you?" "It's a real truth serum," says Nash. (This process is called TORC — Threat of Reference Check — in the Topgrading methodology. It works!) Interviewers will also ask candidates to discuss a time that they had to deal with a difficult boss or when someone said something painful to them. "We're looking for people who receive candor well," says Nash.

Check for Culture Fit

As emphasized earlier, MOM's has customized the interview to its values. Nash believes that people who had to earn money for themselves as teenagers tend to be well-grounded, so the questions might include: "What did you spend money on as a teenager? How did you get that money?" (Hint to future candidates: You will not impress the team at MOM's by saying your parents gave you a $100-a-week allowance.) An interviewer might also ask questions like: "Do you discuss religion and politics with people? When was your last passionate debate? Who was it with? And what was it about? How did it turn out?" "If the answer to the last question was, 'I'll never respect that person again,' we know the person isn't open to different ideas," says Nash.

Checking for culture fit in the interview process can be handled in a variety of ways. At Southwest Airlines, for example, if people don't get the team's omnipresent jokes, it's clear that the airline is not the right place for them. Commerce Bank first screens for people smiling while waiting to be interviewed. At online apparel retailer Zappos, administrative assistants always handle part of the interviewing and testing, even for C-suite candidates. If a candidate seems irritated at being interviewed by lower-level employees, he probably lacks one of Zappos' Core Values, which is being humble.

Test-Drive Potential Employees

Though it's not always possible, the best way to select the right people is to have candidates work with you for several weeks. For frontline hires, temp-to-perm placement firms are popular because they allow you to test-drive candidates. For management hires, see if they can work with you in the evenings on a consulting basis. The founders of Google appointed Eric Schmidt chairman of the board of directors four months before making him CEO.

Zappos requires all new hires, no matter what the position (executive, programmer, marketer), go through a four-week training program that includes extensive time working in its call center serving customers. During this trial period, they offer these newbies a $3,000 bonus (besides their salary for the month) if they quit, guaranteeing that only those who really want to work at Zappos stay. Since acquiring Zappos, Amazon has adopted something similar for fulfillment-center workers called Pay to Quit. In an employee's first year of work, the offer is $2,000. It goes up by $1,000 every year after that until it hits $5,000. The idea, writes Amazon CEO Jeff Bezos in his 2014 letter to shareholders, is "to encourage folks to take a moment and think about what they really want. In the long run, an employee staying somewhere they don't want to be isn't healthy for the employee or the company."

Will, Values, Results, Skill

It's important to hire the best A Player you can find for each position in your company based on four criteria (in this order!):

- **Will** — a desire to excel, act with courage, persevere, learn, and innovate
- **Values** — the test for culture fit – do they align with your core values
- **Results** — in the end can they deliver on your KPIs/outcomes
- **Skills** — the least important since most skill-sets need updated every 5 years

Doing so builds an internal momentum and strength that pays dividends for years. You hire the right people and life is great; you hire the wrong people (fit) and life is miserable.

In the next chapter, we'll look at the leadership and people systems that Nash, Browne, and other leaders use to keep and grow this talent.

5

THE MANAGERS (COACHES)

Keeping and Growing (Educating) the Team

EXECUTIVE SUMMARY: *Once you've hired your team members, it takes great managers to keep them happy and engaged. Failing to develop these managers throughout the organization can become a major growth barrier. We identify five critical activities that distinguish great managers and the routines they use to educate their people — and we suggest that the term "manager" be replaced with the word "coach," which more accurately describes the role. We'll also share hard evidence that investments in training and coaching (vs. R&D and capital expenditures) provide you with the best returns available to your business.*

People join companies. They leave managers. Therefore, to keep your team happy and engaged, you need one thing above all else: great managers — not free lunches or yoga classes! As Gallup notes, "Managers account for at least 70% of variance in employee engagement scores." And great managers are not just born; they are continually advancing their skills and those of their employees.

As the business scales to more than 100 employees, reaching a critical point at which everyone doesn't know everyone else's name, it becomes crucial for the leadership team to build a capable team of middle managers (coaches). As mentioned earlier in the book, failure to develop sufficient leadership is one of the three biggest barriers to growth.

Keep Your Talent Engaged

So what does a great manager do to keep a company's team happy and engaged? To answer this question, Google applied its data analytics capability, led by a "people analytics team," to bring the same level of rigor to People-decisions that it does to engineering challenges. What the data showed is that periodic one-on-one coaching (rather than superior technical knowledge) ranked as the #1 key to being a successful leader.

From our experience, great managers must focus those coaching sessions with their "direct supports" (a better term than "direct reports") on five topics representing the five main activities of successful managers. In reverse order of importance:

5. Hire fewer people, but pay them more.
4. Give recognition, and show appreciation.
3. Set clear expectations, and give employees a clear line of sight.
2. Don't demotivate; "dehassle."
1. Help people play to their strengths.

Let's look at each of these activities in detail.

5. Hire less; higher pay.

Daniel H. Pink, in his best-selling book *Drive: The Surprising Truth About What Motivates Us*, shows why compensation is a lot less effective as a motivational tool than we thought. Extrinsic motivators ("carrots and sticks") have been overrated and become less effective in a world that needs more and more well-educated, right-brain knowledge workers. And people will sacrifice certain perks to work with a firm with a worthy Purpose that's making a difference.

Does that make compensation irrelevant? Of course not! If companies aren't competitive, it becomes challenging for them to attract and keep the best talent. When MOM's finds great people, at every level, it pays them more than the industry average. For instance, the company's minimum wage is $11 an hour, higher than that in its home state of Maryland, which was $7.25 an hour as this book went to press.

The key to affording higher wages (we're talking frontline employees, not senior leadership) is a lower total wage cost as a percent of revenue. You have to remain competitive, and the best companies know that one great person can replace three good ones. Through rigorous selection (i.e., Topgrading), they get the absolute best talent in the door, pay employees above-market rates, and then invest heavily in training and development to make them more productive.

Take storage-product retailer The Container Store, which has been named to the *Fortune list of* Best Companies to Work For 14 years in a row (and counting!). Its Foundational Principle #1 is "1 Equals 3" — one great person equals three good people in terms of business productivity. "We have to be selective when interviewing potential employees because of the Brand Promise we've made to our customers to provide exceptional customer service," notes the company's website. As a result, the Texas-based chain hires only about 3% of all who apply. In turn, the company says, it pays salespeople as much as 50% to 100% more than the retail industry average, and provides 263 hours of training to all first-year full-time employees, compared to an industry average of seven hours. To paraphrase what the co-founders said when they launched their innovative retail concept, "Do we want a whole bunch of low-paid dumb folk; or would we rather have a whole lot fewer, better-paid smart folk?"

Costco pays its employees roughly 70% more per hour than Sam's Club, yet needs almost 40% fewer employees per dollar of revenue. And with a 6% employee turnover after one year vs. 21% for Sam's, Costco saves a tremendous amount on recruiting, training, and development. In general, competing on low labor and training costs is a slippery road and usually not sustainable.

And if you think this pattern holds only for low-wage jobs: Goldman Sachs pays its employees an average compensation package almost twice as big as the competition's, yet it has fewer than half the number of employees on a per-revenue basis and almost three times the profit per employee. Again, fewer people, paid more, with higher productivity.

How you structure the compensation — variable vs. fixed — should fit your culture. If your culture emphasizes rugged individualism, like Nordstrom, you might want to have a high-commission/bonus-based compensation plan driven by internal competition among employees. Given the culture of teamwork at The Container Store and its emphasis on customer service, paying store employees a straight (and high) hourly wage without commissions makes sense. Look to your Core Values, your business model, and your Brand Promise, and let them instruct you in the design of your compensation plan. Don't copy somebody else's system.

"Don't copy somebody else's compensation system."

Last, when it comes to the key people who absolutely drive performance, great managers simply do whatever it takes to keep them on board, including offering a customized compensation package. If one person wants less base and more incentive-based pay, so be it. If another wants more time off, let it happen. "Fairness" does not mean "sameness." You need to be creative and flexible in order to keep your top talent happy, from a compensation-package perspective.

Wages are one of your biggest expenses and should be used strategically to differentiate your firm from the competition, as in the examples above (and the Outback Steakhouse "X-Factor" example in "The 7 Strata of Strategy" chapter). Purchasing a compensation comparison study and paying people the same as everyone else will relegate the company to the heap of average firms.

4. Give recognition and show appreciation.

"The deepest principle of human nature is the craving to be appreciated," wrote William James, the father of American psychology. It is impossible to be motivated and do great work if you don't feel that somebody cares and appreciates what you do.

Studies have shown that for people to be happy and productive at work, they need to experience positive interactions (appreciation, praise) vs. negative (reprimands, criticism) with their manager in a ratio of at least 3:1. (Watch out: For a marriage to work, you actually need a 5:1 ratio!!) So make it a simple habit to thank people each and every day — and that includes using the word generously in emails to your team.

The way people want to receive recognition varies greatly: public vs. private, material vs. immaterial, from peers vs. from superiors, etc. Great managers test different approaches and observe reactions until they find the triggers that work best with each of their people. At MOM's Organic Market, managers will sometimes publicly recognize employees who have performed well, but CEO Scott Nash has often found that one-on-one comments are most effective.

To get ideas on how to create a culture of recognition and appreciation, see Chip Conley's excellent book *Peak: How Great Companies Get Their Mojo from Maslow*, Chapter 5.

3. Set clear expectations and provide a line of sight.

Great managers explain how their people's work contributes to the greater objectives of the company and then help them align their individual priorities with those of the firm. This is what Jack Stack, author of the book *The Great Game of Business: The Only Sensible Way to Run a Company*, calls "line of sight," an important concept to create engagement and a sense of purpose. Can your employees explain how what they're doing helps deliver on your company's purpose, strategy, and Brand Promise?

Once people understand their role and contribution, great managers set clear and consistent expectations about the outcomes of their team's work. By defining the *what* and not the *how*, great managers give employees the autonomy to find their own way of achieving these goals. Feeling the liberty to figure things out for themselves and apply their own style is very important for people, since autonomy is one of three main drivers of human motivation, as Dan Pink explains in *Drive*.

Many managers struggle with defining adequate and measurable targets for their people. Gazelles' execution planning methodology and the One-Page Strategic Plan (OPSP), detailed in the "Strategy" and "Execution" sections of the book, will help. Specifically, column 7 of the OPSP provides space to define for each quarter:

1. **KPIs** — Two to three key performance indicators that objectively signal people on whether they had a productive day or week. At MOM's, says Nash, the company will explain what these measures are — for instance, there might be a particular sales goal for a section of the store — and then tell a manager: "Here's the goal. You have to figure out how to get there, either on your own or with others' help." Nash adds, "If they don't meet KPIs, we sit down with them right away and get a plan."
2. **Priorities** — A handful for the next quarter needed to achieve the Critical Number and improve on a KPI.
3. **Critical Number** — The main bottleneck that each employee or team must fix during the quarter.

Defining these individual outcomes in the context of the OPSP assures alignment with the company's strategy and its long- and short-term goals.

2. Stop demotivating; start "dehassling."

The best managers are less concerned about motivating their people and more concerned about NOT demotivating them. They consider it their job to prevent the hassles that block their team's performance. Such demotivators are usually related to issues with people or processes.

The #1 demotivator for talented people is having to put up with bozos, as Steve Jobs would call them. Nothing is more frustrating for A Players than having to work with B and C Players who slow them down and suck their energy. In that sense, "The best thing you can do for employees — a perk better than foosball or free sushi — is hire only 'A' players to work alongside them. Excellent colleagues trump everything else," explains Patty McCord, former chief talent officer at Netflix, in a recent *Harvard Business Review* article.

Fixing people issues for your team can also mean "firing" a client. Unreasonable clients who mistreat your employees and disrupt your business can become an important energy drain. Firing such clients can gain the manager huge respect internally. The negative financial impact is usually counteracted by the immediate rise in the spirits and productivity of your team.

On the process side, do your people have the appropriate tools and resources they need to get the job accomplished? Are there lame policies and procedures frustrating your team? Do you need to bring in a Lean expert to help your people design new processes or streamline existing ones? Where might they be spinning their wheels because of unnecessary delays? Focus on ways to make your team's job(s) easier — a great definition of an effective manager.

To reinforce this servant leadership approach, Fathom, a digital marketing agency from Cleveland and an exemplary Rockefeller Habits practitioner, started using "direct supports" (as in: the manager supports his people) instead of "direct reports" (as in: the people report to the manager) when referencing a manager's team. We like this twist and hope it spreads.

1. Help people play to their strengths.

What ultimately sets great managers apart from the merely good ones is that they help their people play to their strengths. To understand how to do this requires a refined definition of what constitutes a strength. A strength isn't just something you're good at; it's only a strength if it literally gives you strength, gives you energy (think about the fitness fanatics whom The City Bin Co. is hiring to work on the back of its garbage trucks!). In turn, a weakness, is something that, though you may be good at it, drains the life out of you.

Thus, a key function of great managers is helping individual employees refocus and prune their jobs over time so they focus more on activities that give them strength and less on activities that make them weak. Though there will always be parts of anyone's job that are draining, the companies that do better at minimizing these will have a more energized team.

Coming back to the chess vs. checkers analogy used earlier, Bobby Fischer, the great chess champion, once said, "Winning in this game is all a matter of understanding how to capitalize on the strengths of each piece and timing their moves just right."

Lois Melbourne, CEO of Texas-based Aquire (a subsidiary of PeopleFluent), has taken a page from strengths guru Marcus Buckingham. Instead of hiring more (and extremely difficult-to-find) programmers to keep up with the rapid growth of her HR software firm, she's focused on making her existing programmers happier and more energized.

To do this, Buckingham suggests taking a couple of weeks and documenting all those activities you either love or loathe. This is precisely what Melbourne has her programmers do regularly, noting all of the activities that drain their energy and keep these techies away from their primary strength: programming. She then eliminates those activities no one should have to do (they creep into every job) and then uses the remaining list to create a Job Scorecard for a new position — to be filled by a new chess piece that loves to do what others hate. Result: happier, more productive, and loyal programmers.

Whenever you have a department scream for more help, rather than throw more of the same people at the situation, try Buckingham's approach. And before starting the "love and loathe" exercise, have your team take the inexpensive online StrengthsFinder assessment offered by Gallup (*gallupstrengthscenter.com*). You will get insightful reports that will serve as conversation-starters and will help your people achieve self-awareness about their strengths.

Facebook's celebrity COO Sheryl Sandberg recently called Buckingham's follow-up book with Donald O. Clifton, *Now, Discover Your Strengths*, the most important book she had read in recent years. In her view, Facebook is already a strengths-based organization. If you want to follow Facebook's example, go to *tmbc.com* and get Buckingham's six-DVD series titled *Trombone Player Wanted*. Then organize a learning session with your team and discuss how to become a strengths-based organization. These remarkably produced mini-movies will have a profound impact on everyone in your company.

Finding employees' strengths and focusing workers on those assets is the most powerful people-management tool we can suggest. And it goes hand in hand with dehassling a person's job. Embracing strengths-based management practices will bring you more fulfilled, happier, and engaged employees who will lift themselves and your organization to new levels of energy and performance.

CRITICAL: *Don't forget to apply this to yourself. Focus on eliminating or delegating tasks that drain you. In Verne's case, he found someone who loves to build PowerPoint presentations, something that wears him out; and he continues to partner with various CEOs to run the Gazelles family of companies. This gives him more time to teach, which truly energizes him.*

Are You a Manager or a Leader?

Ask a *good* manager about his team and he will speak in generalities, saying that they are hard-working, responsible, fun, etc. Ask a *great* manager the same question and she will describe each of her team members with specific details about their personality, strengths, and achievements. Again, think about the "A-Team" action television analogy from the last chapter.

If you struggle with appreciating the differences in your team, you might be more of a leader than a manager. Managing is about differences; leading is about sameness. Great managers discover what is different about people and capitalize on it. Great leaders discover what is universal, build a common vision for a better future around it, and then rally people behind it. (Marcus Buckingham, this time in his book *The One Thing You Need to Know ... About Great Managing, Great Leading, and Sustained Individual Success*, explains this difference between managing and leading.)

Companies can cope with a charismatic leader (who struggles with managing) until they get to about 50 employees. But as soon as you approach 100 or more people, you have to put in place a team of managers capable of adopting the five habits outlined above. Scaling up a business requires both visionary leadership and great managers.

Grow Your Talent

In 2012, Gene Browne, co-founder and CEO of The City Bin Co. in Galway, Ireland, decided to invest heavily in executive education. The company set up an internal learning academy named "Garbage University." It provides three hours of training every two weeks from September to May, in sync with the academic year. Each year, Garbage University has a particular focus that shapes the topics that the executive team discusses. For instance, 2013 was about growth during a time when the company grew nearly 100%, from 70 to 120 employees.

At MOM's Organic Market, in addition to executive education, produce managers will typically read four to five books together every year. Recent titles on their list include business books such as Liz Wiseman's *Multipliers: How the Best Leaders Make Everyone Smarter* and Patrick M. Lencioni's *The Five Dysfunctions of a Team: A Leadership Fable*. Other titles help them absorb knowledge that's specific to their field. One typical pick: Maria Rodale's *Organic Manifesto*. "We've read a lot of books on the organic industry," says Jon Croft, training director at the metro Washington-based company.

In order to keep your company competitive and your people loyal, you must grow them through education and coaching. And this investment in people is the biggest single predictor of a company's ability to beat its direct competitors and the overall market, based on exhaustive research done by Laurie Bassi, co-author of *Good Company: Business Success in the Worthiness Era*. Jack Welch, former CEO of General Electric, couldn't agree more. He declared that the ROI of GE's famous internal business school, Crotonville, was "infinite."

Onboarding — Getting the First Impression Right

One of the biggest opportunities to grow and align your people is when they first start working for you. Their initial weeks on the job represent a unique chance to create connection and deeply ingrain a company's DNA into new people. Yet few companies make proper use of this opportunity. Instead, the first days on the job often feel more like *waterboarding* than *onboarding*: no desk, no computer, no phone, the new boss is traveling, and the first assignment is shadowing an unenthusiastic colleague for two weeks.

Famous sales coach and dear friend Jack Daly suggests, "Why don't you throw people a party when they start, instead of when they leave?" Sydney-based software firm Atlassian sends each new employee, whatever his or her position, to a resort spa the weekend before the start date as a way to celebrate the new job. The spouse or a guest gets to go along — making both new employees and their spouses raving Atlassian fans.

Why not have balloons suspended from her chair (Appletree Answers has a Herman Miller Aeron chair for each call center worker); a signed welcome card; and a celebration lunch with cake? Or, as Daly did for every new employee he hired, send a gift basket to his house/spouse, timed to be awaiting his arrival home after the first day on the job. Onboarding needs to be a celebration, not paperwork. It should create emotional connections between the new recruit and a maximum number of team members.

Formal Orientation

To inculcate a new employee (bring her into the culture) properly, structure a formal orientation process. It's most effective when organized around doing real work while emphasizing the company's Values and Purpose. Zappos' four-week orientation has all new recruits work the call center phones as a way to understand the intense focus that the Las Vegas-based online apparel retailer places on customer service from the ground up.

Boston-based global services company Sapient had one of our favorite orientation processes, launched back when co-founder J. Stuart Moore was running the company. It was a five-day "boot camp" designed by a former second-grade schoolteacher working at the company. She approached Moore when the organization passed the 70-employee mark and warned that the culture was starting to "leak" (this always happens when a company reaches about this number of employees). She designed the boot camp so all new recruits would spend a week working on a list of nagging internal projects that no one else wanted to tackle (good to have newbies!). And as they worked on these projects, one Core Value was reinforced each day, so by the end of the week, everyone understood in a real way the cultural and strategic approach Sapient preferred on all projects.

Teams at this rapidly growing firm had been screaming that they needed more people in the field immediately. But they found that new recruits who went through the boot camp could hit the ground running at near 100% field-ready alignment, whereas before the orientation process was introduced, they had normally needed a frustrating six-month ramp-up period. Everyone became huge fans of the process as Sapient scaled up to 2,500 people.

At Blinds.com, a Houston-based online retailer of window blinds and shades with 250 employees, orientation includes a scavenger hunt — an excuse to meet and greet the new colleagues and answer their questions about the company and its culture. Founder and CEO Jay Steinfeld then personally drives new recruits to a run-down alleyway in Houston where the company had its first office back in 1996. There, he shares the history and Core Values of the company (which was acquired by The Home Depot in January 2014). The involvement of senior management in the onboarding process is critical.

As Harvard professor Frances Frei and organization builder Anne Morriss remind leaders in their breakthrough strategy book *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*, onboarding is like the imprinting that happens to birds immediately after hatching. (Remember the mother hen vs. the farmer's boot?) People are exceptionally positive, receptive, and willing to learn in this phase, and they experience deep attachment to whatever you expose them to. So be careful about the kind of induction program you put in front of your "hatchlings." Dumping a 200-page binder of company policies on their desks is probably not sending the right message.

All Growth Companies Are Training Companies

At its 20th anniversary celebration, Poland-based AmRest Holdings' co-founder and chairman, Henry McGovern, looked back at how the restaurant holding company grew from its first Pizza Hut in Wroclaw to more than 18,000 employees with restaurant locations throughout Eastern Europe, Russia, the US, and China. "We're more a training company than a restaurant company!" he said. In 2013, AmRest invested 20,000 hours of training in Russia alone as it ramped up from two to 80 restaurants.

The only way to grow a company is to grow the people first. Whether Jack Welch is committing $50 million to Crotonville, The Container Store is providing first-year associates with 263 hours of formal training, or CJ Advertising in Nashville is paying employees to read industry-related materials from its library, the best growth firms are, first and foremost, training companies.

Most professions and trades understand this. Commercial pilots, thankfully, are required to hone their skills 60 hours per year in continuing education; doctors need to put in 45 to 60; embalmers and truck drivers must complete more than a dozen hours annually. Yet business professionals piloting their companies aren't required to obtain a single hour. We're hoping to change this. We require our Gazelles International Certified Coaches to commit to 45 hours of annual professional education to keep their certification. And our more progressive clients, monitored by their CFOs, are starting to require a specific number of hours of ongoing education at all levels of the organization (we suggest 12 hours for the frontline; 25 hours for middle management; and 45 to 60 hours for senior leaders as a starting point).

Worried about spending all that money on training only to watch your people go elsewhere? The research definitively shows that training and development increases loyalty. Besides, what's the alternative? Do you really want your people not to be the best-trained for the jobs they have to do?

And how much should you spend on training? It obviously depends, but 2% to 3% of your payroll is a good benchmark. Who should you spend it on? Senior leaders, middle managers, frontline employees? They all need training, but focus first on your middle management. In most growth companies, they have the hardest jobs and are critical to employee engagement and retention, yet get the least preparation for it.

Garbage University

At The City Bin Co., Browne, who had been a business school lecturer early in his career, facilitates Garbage University, creating a formal syllabus, complete with homework assignments. Sometimes, his leadership team reviews case studies from *Harvard Business Review* together. Other times, they watch an on-demand video from Gazelles or review chapters of a business book together, looking for valuable takeaways to grow the firm. "We have a discussion around what we can learn and apply to our business," Browne says.

Browne prepares a syllabus to keep the program well-focused and on track. To give you an example of how it works, one item on the syllabus in 2012 was "Social Media for Business." The executive team looked at David Meerman Scott's lessons from the book *The New Rules of Marketing & PR: How to Use Social Media, Online Video, Mobile Applications, Blogs, News Releases, and Viral Marketing to Reach Buyers Directly* and watched several short YouTube videos that exemplified Scott's teachings. The following week, City Bin's execs focused on improving their writing skills and did a refresher on common mistakes in punctuation.

Other discussions have covered topics such as leadership, strategy, customer service, sales, scenario planning, and Tony Schwartz's principles of energy management.

This isn't just a feel-good exercise. In its new partnership with Dubai-based Averda, where Browne sits on the Executive Committee, City Bin is laser-focused on expanding into emerging markets and needs its team to stay primed for new opportunities to expand, whether that is by licensing its software, franchising, or winning contracts with distant municipalities. "We don't necessarily have to collect waste from a million homes," says Browne. "We can be inside a million homes through our software." Having a team that is primed to tap into such opportunities will be crucial to City Bin's growth — and Browne knows they need to be prepared.

Online Learning

Longstanding clients like AmRest and City Bin are taking advantage of online education as well. MOM's Organic Market frequently convenes members of its leadership team to watch webcasts on topics that will help them develop professionally and personally. It shows the videos every six to eight weeks in operations or other meetings. "It is a learning event incorporated into a meeting that has already been planned," says Croft, the training director.

The company watches the 45- to 75-minute online seminars as a group and then has a regional general manager lead a 30- to 60-minute "reflective dialogue" on the program, says Croft. At one meeting in March 2014, managers in the produce area and a group of employees interested in becoming managers watched Malcolm Gladwell's video seminar *Outliers: Why People Are Successful,* available on demand at *scalingup.com.*

"The general idea is to expose these emerging leaders, if you will, to different thoughts about how we grow ourselves and how we grow a business, and how we grow a unit within the business," explains Croft.

MOM's actively encourages employees to apply what they have learned to their work. At the end of each discussion, employees are asked, "What is the one takeaway that you are going to commit yourself to working on?" Very recently, MOM's expanded its program to hourly workers; it has been airing an online video on *The Happiness Advantage* by Shawn Achor for hourly workers at some of its stores on Sunday nights.

"Scott felt very passionately that we should figure out a way to incorporate more of our staff into these opportunities," says Croft. The training director, who has been leading the sessions with the hourly team, says the discussions have been "as good as — if not better and more energizing, passionate, and exciting than — any of the ones I've led in the past year."

Beyond providing a learning opportunity, *The Happiness Advantage* video has helped reinforce the company's values. "As a company, we care deeply about being whole people," Croft says. "We care deeply about having a wellness in our lives that includes our work lives, but also every other aspect of our lives. We would like for all of us to figure out how to use *The Happiness Advantage* in our work, but it's really so much more than that. It's the ripple effect we can have on others."

As mentioned in the beginning of this section, MOM's also strongly encourages employees to set aside time for professional reading and has organized a vetting committee to find intriguing books for its leadership team to discuss. To make sure employees truly learn from each book, Croft might prepare a sheet asking managers to focus on takeaways on which they plan to act, and the five key points they want everyone at MOM's to know.

With some books, the company will ask a member of the team to make a formal presentation on a specific chapter. "For *Multipliers*, we did some of the exercises Liz suggested in the book," Croft says. "The managers got a lot out of that book. I think the process really helped solidify that."

One book that has been a hit among Croft's team is *The Weekly Coaching Conversation: A Business Fable About Taking Your Game and Your Team to the Next Level* by Brian Souza.

"Managers absolutely love that book and the conversations around that book," Croft says.

Another that sparked passionate feedback was *Lean In: Women, Work, and the Will to Lead,* by Facebook's Sheryl Sandberg. A discussion among the leadership team that Croft expected would last two hours stretched to four, with the head of HR at MOM's furiously taking notes on potential changes to make the company more family-friendly. As a result, CFO Kelly Moler decided to form a committee to work on such initiatives. "We are going to take a good look at our policies and procedures," says Croft.

Meanwhile, Croft has planned another discussion of *Lean In,* including both women and men on the staff at the store level. "I believe there is a need to have that conversation not just with one gender or another," he says.

All this learning is obviously paying off: MOM's continues its rapid growth while achieving four times industry average profitability in an industry not known for spending a lot on training and development.

Growing People Through Coaching

As Google's people analytics team discovered, one-on-one coaching is the #1 factor linked to great management. Again, this is why we've been quietly lobbying to get rid of the term "manager" and replace it with "coach" (e.g., sales coach vs. sales manager).

The best framework for coaching is Ken Blanchard and Paul Hersey's concept of Situational Leadership. It guides leaders in how to mix the right amount of direction and support, depending on the competency and confidence of the person being coached.

Based on this model, managers can move employees through a development cycle that reduces step by step the need for direction and support until a task can be fully delegated. The style chosen in each phase needs to be based on the task at hand. While one task might require specific how-to instructions, another might call for only some encouragement or nothing at all. Read the short management fable

Leadership and the One Minute Manager: Increasing Effectiveness Through Situational Leadership, by Ken Blanchard, Patricia Zigarmi, and Drea Zigarmi, to gain more insight into this powerful coaching framework.

But as with any tool, this model requires a rhythm of use to make it effective. This is where regularly scheduled one-on-one coaching conversations are helpful and can replace the dreaded quarterly or annual performance reviews (which are too far removed from the behaviors and results that need changing). Set a specific day each week or month, depending on the competence and maturity of the employee, and stick to it. Frequent canceling sends a message that it's not important. If it is monthly, an hour is appropriate; if it's weekly, then budget 20 to 30 minutes.

Use these conversations to review individual KPIs, Priorities, and Critical Numbers from column 7 of the OPSP at each meeting. Recognize good performance, analyze underperformance, and discuss activities needed to get back on track. Ask questions to put the focus on the process, rather than lamenting results. Also give feedback on adherence to Core Values and, if necessary, develop strategies to correct behavior. Don't hold back. Timely feedback is the most effective. It is easier to digest and prevents the formation of bad habits.

Last, in order to grow people, you must expose them to different experiences (10 years of work experience is not the same as one year, repeated 10 times). Regularly modify an employee's tasks and responsibilities to present new challenges. That is where experience learning happens, especially when these challenges allow people to play to their strengths. Regularly question each employee's task list in your coaching conversations (e.g., do the "love and loathe" exercise) and search for opportunities to refocus activities on areas that the person is naturally drawn to but that at the same time represent a challenge.

Frame these development conversations by sharing your view about where the markets, the industry, and the company are heading and how your employee's plans, aspirations, and dreams fit into this bigger picture. Also, when designing the next learning experience for your people, explain to them that in today's flat organizations, development is no longer about climbing the proverbial career ladder. Modern careers now resemble the process of rock-climbing, where the top does not have to be the goal. Getting across the rock face or reaching another specific spot can be much more exciting and rewarding.

And above all, make your coaching situational throughout the process. Again, read Blanchard's book on Situational Leadership. We also recommend Beverly Kaye and Julie Winkle Giulioni's book *Help Them Grow or Watch Them Go: Career Conversations Employees Want*. It is a great resource with many practical tips and hands-on guidelines on how to structure your one-on-one conversations. Add Brian Souza's book *The Weekly Coaching Conversation* to help get your managers into the mindset required for great coaching. And last, read Chapters 5 and 6 in Marcus Buckingham and Curt Coffman's *First, Break All the Rules: What the World's Greatest Managers Do Differently* to learn more about strengths-based management and coaching.

"Great coaches consistently get the most *out* of their people, because they consistently put the most *into* their people," writes Souza. Managing people is difficult because people are complex. In today's high-pressure environments, it is very easy to get caught up in the fight for results and to forget about the complex human beings who are needed to produce them. That's why it is good to remind ourselves that in business and in life, the journey, not the destination, is the reward. Or, to quote Souza as he beautifully describes the deeper purpose of coaching: "When all is said and done and we've completed this journey we call life, what will matter most is not what we have achieved — but rather who we have become."

With this in mind, we finish this chapter with a plea: People are not resources that you consume. So rethink the name of the department that takes care of them. Call it Talent Development, Human Relations, People Support, or Head of People Experiences — whatever term fits your culture — choose to call this function anything but Human Resources.

SCALING UP
STRATEGY

THE STRATEGY INTRODUCTION

KEY QUESTION: *Can you state your firm's strategy simply — and is it driving sustainable growth in revenue and gross margins?*

Pizza delivered in 30 minutes or less, or it's free. That simply stated strategy made Tom Monaghan, founder of Domino's Pizza, a billionaire. (He is now in the process of giving it all away.) A half-century later, Domino's adjusted its strategy to focus more on quality and slowed service slightly — and growth returned, with the stock tripling in price in just 36 months since the change.

Articulating a similarly clear and differentiated strategy, supported by a strong core culture that can deliver on the brand's promises, is the key for any company wanting to scale up.

So how do you know when you have an industry-dominating, competitor-crushing strategy? Sustainable top-line revenue growth and increasing gross margin dollars (the true top line for many firms, as we'll discuss in "The Accounting" chapter) are the two key financial indicators. Customers beating a path to your door, dragging along everyone they know, is another! In turn, if you don't have a killer strategy, your company will face continuous price pressures as the market commoditizes your products and services.

The other way to know if you have a strategy? Do you say "no" 20 times more than you say "yes" — no to the increasing number of opportunities coming your way; no to the wrong customers for your business model; no to nineteen of the twenty people wanting to work with you (because marketing is getting you a steady stream of applicants!); etc.? We recognize that in the beginning you have to say yes to everyone and everything. But you say yes only until you have the luxury to say no (read that sentence again). Those with a well-honed strategy know when to say yes and more importantly, when to say no.

Deep strategy work is time-consuming, as the marketplace constantly changes. To paraphrase the great Prussian General Carl von Clausewitz, strategy is only as good as your next encounter with the enemy (or decision of your competitor). Therefore, it's critical that the senior leadership team work on it each week, free from day-to-day firefighting. The tools and routines in the "Execution" section will set you free to do this.

Top strategists are often compared to grandmaster chess players. However, there is a misconception that these players are thinking more moves ahead of mere masters or novices. They are not. Their advantage is in having 10 times the NEXT moves in their repertoire, depending on the latest gambit of their opponent. Therefore, get help from mentors, advisors, and consultants who have developed strategies for hundreds of companies — they'll have more "next moves" in their bag of tricks.

Keys to Dominating Your Market

Verne's mentor Hermann Simon wrote the definitive book on privately held growth firms called *Hidden Champions of the 21st Century*. For an excellent summary of the seven lessons he discerned from studying thousands of mid-market firms that dominate their niches globally, go to *http://www.whiteboardmag.com/hidden-champions-1-what-german-companies-can-teach-you-about-innovation/* — it details a key formula for crushing your competition and is worth the 7 minutes to review Simon's 7 lessons.

In addition, Salim Ismail's breakthrough book *Exponential Organizations: Why new organizations are ten times better, faster, and cheaper than yours (and what to do about it)* is a must read if you want to 10x your organization using the same strategies Silicon Valley's "unicorns" (startups that zoom to $1 billion in valuation) have used to scaleup. For a comprehensive online course by Ismail go to *www.growthinstitute.com*.

Section Overview

The first chapter, The Core, bridges the People and Strategy decisions and examines the Core of the organization: its Values, Purpose, and Competencies. A strong Core is the foundation for an effective strategy. We'll share specific approaches for discovering each element, and discuss how to leverage this Core to drive a strong culture through the people (HR) systems — and prevent culture drift as the organization scales. A weakened culture will torpedo any strategy.

The second chapter, The 7 Strata of Strategy, guides you through a framework for constructing an industry-dominating plan. It integrates several of the best-known components of strategy — from Michael Porter, Jim Collins, Frances Frei, and Bob Bloom — into a single framework. The accompanying one-page 7 Strata of Strategy worksheet will help you do the strategic thinking for the One-Page Strategic Plan (OPSP) and determine your company's Brand Promises, Big Hairy Audacious Goal (BHAG®), and other components.

The third chapter, The One-Page Strategic Plan, introduces the new SWT (strengths, weaknesses, and trends) tool, which augments the standard SWOT (strengths, weaknesses, opportunities, and threats) analysis in preparing your strategic plan. We will guide you through the OPSP and a new one-page Vision Summary, which provides a more visually pleasing and simpler way to communicate your strategic plan.

Four one-page Strategy tools will be covered in this section:

1. **7 Strata of Strategy:** a framework for integrating several important strategic components into one coherent plan
2. **Vision Summary:** a simplified OPSP, useful for sharing your vision with employees, customers, shareholders, etc.
3. **SWT:** a new strategic-planning preparation tool that augments the SWOT
4. **OPSP:** a one-page worksheet for capturing the company's vision, from the Core Values to the Quarterly Theme, and everything else in between

Strategy: 7 Strata

Organization Name:

Words You Own (Mindshare):

Sandbox and Brand Promises:

Who/Where (Core Customers)	What (Products and Services)	BRAND PROMISES	KPIs

Brand Promise Guarantee (Catalytic Mechanism):

One-PHRASE Strategy (Key to Making Money):

Differentiating Activities (3 – 5 Hows):

X-Factor (10x – 100x Underlying Advantage):

Profit per X (Economic Engine):

BHAG* (10 – 25 Year Goal):

**BHAG is a Registered Trademark of Jim Collins and Jerry Porras*

Strategy: Vision Summary

Gazelles
GROWING LEADERS - GROWING COMPANIES

CORE VALUES	PURPOSE	BRAND PROMISES

BHAG

STRATEGIC		PRIORITIES
3–5 yr	1 yr	Qtr

Your Name: ______________________________

Your KPIs		Goal
1		
2		
3		

Critical #: People or B/S

- (green)
- (light green)
- *Between green & red*
- (red)

Critical #: Process or P/L

- (green)
- (light green)
- *Between green & red*
- (red)

Your Quarterly Priorities		Due
1		
2		
3		
4		
5		

Download a full-sized copy of this tool at *scalingup.com*

Trends

What are the significant changes in technology, distribution, product innovation, markets, consumer, and social trends around the world that might impact your industry and organization?

Strengths/Core Competencies

What are the inherent strengths of the organization that have been the source of your success?

Weaknesses

What are the inherent weaknesses of the organization that aren't likely to change?

Strategy: One-Page Strategic Plan (OPSP)

Organization Name:

People (Reputation Drivers)

Employees	*Customers*	*Shareholders*
1.	1.	1.
2.	2.	2.
3.	3.	3.

CORE VALUES/BELIEFS (Should/Shouldn't)	**PURPOSE** (Why)	**TARGETS (3–5 YRS.)** (Where)	**GOALS (1 YR.)** (What)

TARGETS (3–5 YRS.)

Future Date	
Revenues	
Profit	
Mkt. Cap/Cash	

Sandbox

GOALS (1 YR.)

Yr Ending	
Revenues	
Profit	
Mkt. Cap	
Gross Margin	
Cash	
A/R Days	
Inv. Days	
Rev./Emp.	

Actions *To Live Values, Purposes, BHAG*	***Key Thrusts/Capabilities*** *3-5 Year Priorities*	***Key Initiatives*** *1 Year Priorities*
1	1	1
2	2	2
3	3	3
4	4	4
5	5	5

Profit per X

Brand Promise KPIs

Critical #: People or B/S

Between green & red

BHAG®

Brand Promises

Critical #: Process or P/L

Between green & red

Strengths/Core Competencies

1.
2.
3.

Weaknesses:

1.
2.
3.

BHAG is a Registered Trademark of Jim Collins and Jerry Porras.

Download a full-sized copy of this tool at *scalingup.com*

Your Name: | Date: | **Gazelles** GROWING LEADERS - GROWING COMPANIES

Process (Productivity Drivers)

Make/Buy	*Sell*	*Recordkeeping*
1. ______	1. ______	1. ______
2. ______	2. ______	2. ______
3. ______	3. ______	3. ______

ACTIONS (QTR)
(How)

Qtr #	
Revenues	
Profit	
Mkt. Cap	
Gross Margin	
Cash	
A/R Days	
Inv. Days	
Rev./Emp.	

Rocks

	Quarterly Priorities	Who
1		
2		
3		
4		
5		

THEME
(QTR/ANNUAL)

Deadline:	
Measurable Target/Critical #	

Theme Name

Scoreboard Design

Describe and/or sketch your design in this space

YOUR ACCOUNTABILITY
(Who/When)

	Your KPIs	Goal
1		
2		
3		

	Your Quarterly Priorities	Due
1		
2		
3		
4		
5		

Critical #: People or B/S

-
-
- *Between green & red*
-

Celebration

Critical #: People or B/S

-
-
- *Between green & red*
-

Critical #: Process or P/L

-
-
- *Between green & red*
-

Reward

Critical #: Process or P/L

-
-
- *Between green & red*
-

Trends

1. ______
2. ______
3. ______
4. ______
5. ______
6. ______

6

THE CORE
Values, Purpose, and Competencies

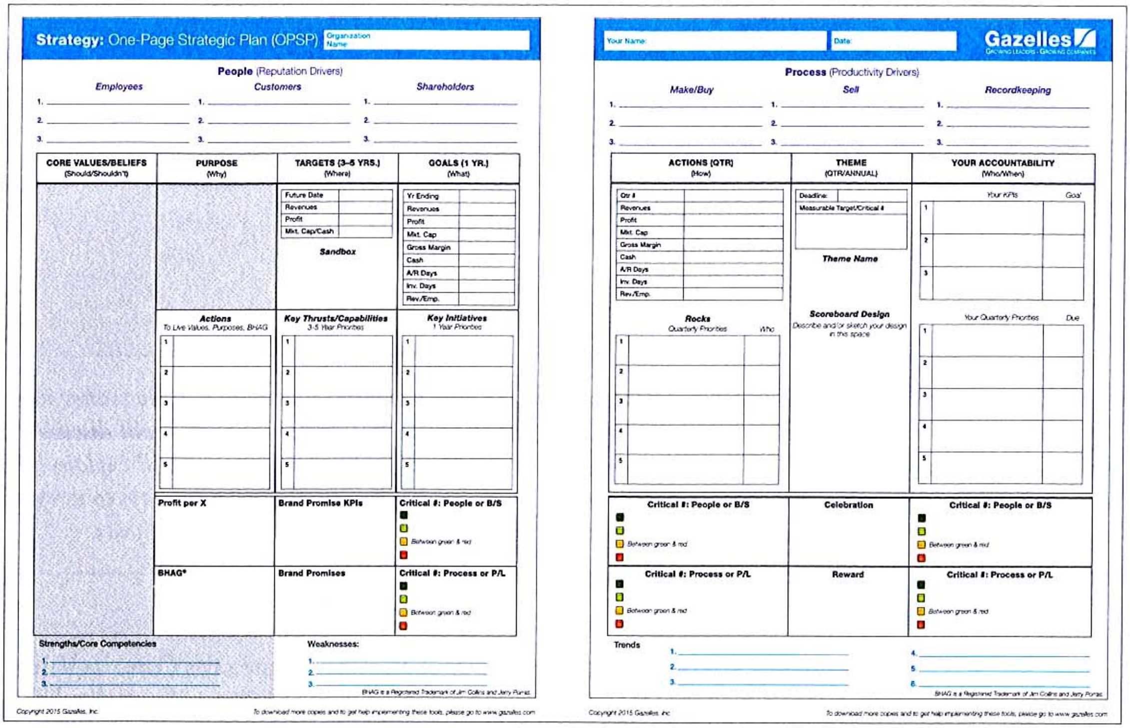
EXECUTIVE SUMMARY: *Successful athletes know the power of having a strong core, no matter what the sport. Growth firms require a similar core to maintain a strong culture. This chapter will discuss the practical role of Core Values, Purpose, and Competencies when scaling up a business. It will explain how to articulate the Core so it's more than just a list posted on the wall. We will outline eight ways to use your Core to drive the people (HR) systems in the company, using the case study of Appletree Answers.*

John Ratliff knows the importance of articulating and communicating a company's Core: its Values, Purpose, and Competencies. Ratliff is the founder and former CEO of 650-employee Appletree Answers, an answering service and call-center provider based in Delaware. He made 24 acquisitions to build the company (which he sold to Stericycle Communication Solutions in June 2012), and it has nearly as many geographical locations. Besides managing locations thousands of miles apart, Ratliff's leadership team had to integrate apprehensive groups of employees into the culture after they suddenly found themselves under new management. Toward the end of the chapter, we'll look at Appletree's approach to keeping its Core and culture strong.

Successful athletes need a strong core — or midsection — to provide overall stability, power, and control. The same is true for growth firms. Without a strong core, the organization risks instability from cultural challenges, loss of focus, disengagement, and lack of heart as it scales up. It will experience the proverbial wheels flying off as the business speeds down the highway. And just as a strong center is based on having stronger lower-back muscles, oblique muscles, and abdominal muscles, there are three equivalent muscles at the center of the organization: Values, Purpose, and Competencies.

This Core provides the link between People and Strategy in our 4 Decisions model. Once the company gets larger than 50 to 70 employees — the size at which the senior leaders no longer know everyone's name and start seeing "culture drift" — it is critical to codify the Core, articulate it, and reinforce it on an ongoing basis.

These three foundational attributes of the company anchor the left side of the One-Page Strategic Plan (OPSP), fortuitously forming the letter "C" for Core (the shaded area in the diagram), and they represent the heart and soul of the organization.



Strategy: One-Page Strategic Plan (OPSP) Organization Name

People (Reputation Drivers)

Employees / Customers / Shareholders

CORE VALUES/BELIEFS (Should/Shouldn't) | PURPOSE (Why) | TARGETS (3-5 YRS.) (Where) | GOALS (1 YR.) (What)

Future Date, Revenues, Profit, Mkt. Cap/Cash

Sandbox

Yr Ending, Revenues, Profit, Mkt. Cap, Gross Margin, Cash, A/R Days, Inv. Days, Rev./Emp.

Actions — To Live Values, Purposes, BHAG

Key Thrusts/Capabilities — 3-5 Year Priorities

Key Initiatives — 1 Year Priorities

Profit per X | Brand Promise KPIs | Critical #: People or B/S

BHAG® | Brand Promises | Critical #: Process or P/L

Between green & red

Strengths/Core Competencies

Weaknesses:

BHAG is a Registered Trademark of Jim Collins and Jerry Porras

Copyright 2015 Gazelles, Inc

To download more copies and to get help implementing these tools, please go to www.gazelles.com

Your Name: Date:

Gazelles — Growing Leaders · Growing Companies

Process (Productivity Drivers)

Make/Buy / Sell / Recordkeeping

ACTIONS (QTR) (How) | THEME (QTR/ANNUAL) | YOUR ACCOUNTABILITY (Who/When)

Qtr #, Revenues, Profit, Mkt. Cap, Gross Margin, Cash, A/R Days, Inv. Days, Rev./Emp.

Deadline: Measurable Target/Critical #

Theme Name

Your KPIs — Goal

Rocks — Quarterly Priorities — Who

Scoreboard Design — Describe and/or sketch your design in this space

Your Quarterly Priorities — Due

Critical #: People or B/S | Celebration | Critical #: People or B/S

Critical #: Process or P/L | Reward | Critical #: Process or P/L

Between green & red

Trends

BHAG is a Registered Trademark of Jim Collins and Jerry Porras

Copyright 2015 Gazelles, Inc

To download more copies and to get help implementing these tools, please go to www.gazelles.com

Let's take a look at each component of the Core, how it's determined, and practical tips for using each to anchor the focus and culture of the business.

The Core Values

Hatim Tyabji built VeriFone from $31 million to $600 million in 11 years, dominating the global market in clearing credit card transactions. His key leadership tool, he says, was a small nine-page "blue book," translated into eight languages, which outlined the values at the heart of VeriFone's culture. When Tyabji took over as CEO, he discerned the rules that had made VeriFone successful up to that point, created the book, and then "essentially spent the next 11 years repeating myself," he notes. He is now leading a turnaround of Best Buy as chairman and in 2013 welcomed back founder Richard Schulze as chairman emeritus, clearly a nod to keeping the company rooted in its beginnings and its four Core Values.

Core Values are the rules and boundaries that define the company's culture and personality, and provide a final "Should/Shouldn't" test for all the behaviors and decisions by everyone in the firm. It's especially important that top managers lead by example, making sure their behaviors and decisions align with the Values.

When Values fully permeate the company, the leadership team can avoid being sucked into many of the day-to-day operational issues. The rule becomes, "If you think you need to ask me permission for something, just consult the Core Values!" This gives management the confidence to delegate important tasks. They can trust that employees will know the right things to do when faced with a decision or an ethical dilemma.

Similar values and boundaries play a parallel role in parenting. The key is having a handful of rules, repeating yourself a lot, and hoping that your family's values sink in by the time your children strike out on their own.

The Organization's Personality

What are your Core Values? As we discussed in "The Leaders" chapter, your company is a living, breathing organism with a distinct personality. It expresses that personality through its Values.

Think of your company as a child. If it is less than 5 years old, its Values are still being formed. The Values you listed when you started it may take a few years to take shape fully. Years later, these will be baked in, just as someone's personality at age 50 is a more hardened version of who he or she was at age 5. Our behaviors, aspirations, knowledge, vocations, and interests may change, but not our foundational personality.

To try to change a firm's Core Values will send the organization into endless therapy, the same way a parent's efforts to force a child into a mold will. (Why do you think change management gurus make the big bucks but almost always fail?) J. Stuart Moore, co-founder of Boston-based global services company Sapient, shares that his biggest mistake was modifying the company's five Core Values to accommodate a major acquisition. He blames that change for the subsequent challenges Sapient faced. He resolved them only when the company went back to its initial list.

This speaks to why the term "merger" should be eliminated from the business vocabulary. There is no such thing. There are only acquisitions. The rare few companies that succeed in scaling up by making them, as Ratliff did at Appletree, have a process for quickly inculcating the acquired employees into the acquirer's existing culture (more on this later).

Creating such a process requires a company to accurately discover and define its own Core, starting with its Values.

Discovering the Right Words

Companies can spend tens of thousands of dollars and many months laboring through employee surveys and management meetings to figure out their Values, only to end up with a generic list of platitudes — like "honesty, integrity, teamwork, and customer service" — that misses the uniqueness and power of the existing culture.

Discerning the Core Values is a DISCOVERY process, not the creation of a wish list of nice-to-haves. Using an approach similar to that of archaeologists examining the artifacts of an ancient culture, our coaching partners help firms identify similar artifacts within their own company cultures and establish a starting set of Values.

"Discerning the Core Values is a discovery process."

WARNING: *Once you have this starting list, do not carve it in stone, as one of our early clients did. (That client's CEO literally had small engraved stones sitting on everyone's desks a week after the exercise.) Let the Values bake for a year, testing their validity at the next several quarterly planning sessions. Ask the leadership team, "Are there plenty of examples where we lived these Values?" If there are, you likely are talking about a Core Value. If there are not, then it might have been a wish-list item or a Core Value that has weakened significantly. When Verne's team did something similar for Gazelles, we discovered one Value that wasn't core, found we had missed one (we had lots of stories, but no Value representing them), and reworded a few to match the actual language we used as we told stories supporting that Value.*

To give you the flavor of the Core Values of a growth company, here are Gazelles':

- Practice what we preach
- Nothing less than ecstatic customers
- First class for less
- Honor intellectual capitalists
- Everyone an entrepreneur
- Never, ever, ever give up

For additional examples, read the *Harvard Business Review* article titled "Building Your Company's Vision," by James C. Collins and Jerry I. Porras. You'll notice that all the Values listed are phrases, not single words. And they are not all feel-good Values. One of Disney's Core Values is "Preservation and control of the Disney magic," which accurately describes one of the most controlling cultures you'll ever experience. Values are neither good nor bad. They just are! The key is to articulate them accurately.

To communicate these Values throughout the organization, take a page from Tyabji's blue book. It describes each Core Value with a phrase, defined in a sentence or two, and then anchored with an actual story (or legend) detailing how an employee or a team lived that Value. And since VeriFone operates globally, Tyabji had each one-page description of a Value translated into eight languages.

Ezypay, Australia's largest direct-debit service provider, has taken this a step further and created an avatar and a supporting video for each Core Value. The avatars show up everywhere — in Quarterly Themes, on the walls of the company's situation room, in documents, etc. Go to *ezypay.com/about-us/our-values/* to view the avatars.

Let us know if we can help you properly discover the right Core Values. Discerning the wrong list will only confuse the organization and relegate it to endless therapy!

The Core Purpose

If the Core Values are the soul of the organization, the core Purpose (some call it "mission") gives it heart. The Purpose answers the ageless question "Why?" Why does what we do matter, and what difference are we making in the world? Why would our customers or the world miss us if we weren't around?

Without a Purpose more heartfelt than that of making money (there are plenty of other places on the OPSP to represent this goal), employees will pour their enthusiasm and energy into something else. Research finds that if you ignite and capture their hearts, not just their heads, they will give you 40% more discretionary effort.

"A powerful Purpose tends to revolve around a single word or idea."

We find that a powerful Purpose tends to revolve around a single word or idea:

- 3M: *Innovation*
- Disney: *Happiness*
- Wal-Mart: *Robin Hood*

Even Starbucks' heritage was built on the idea of being an escape — a *third place* — between work and home.

When the international school that Verne's children attend wrestled with the question of Purpose, rather than settle for a rather lengthy and boring statement that sounded like every other school's, it grabbed hold of the idea of *engagement*: to create an environment where students, teachers, parents, and the community are so engaged (something you can feel and see) that learning becomes a lifelong pursuit. What it takes to create this kind of passion then drove the rest of the strategic plan for the school.

This central word or idea is then expanded into a phrase or two, but is most easily remembered and acted upon when it has a single word or idea at its core. To discern this Purpose, gather a team together and start with the question, "What do we do?" (You might answer: "We're a school." "We sell overpriced coffee." "We host a CRM system.") Then ask "Why?" several times (a technique known as the five whys). Why does this matter, or what difference can we make? Keep asking until you get to your version of "Save the world," and then back up one step.

At Gazelles, we are an executive education and coaching company. Why does this matter? In the end, it's all about *freedom*. It's freeing leadership teams from the day-to-day so they can get out and grow the firm. It's about helping entrepreneurs, who launched a business for the freedom and independence it promised, to deal with the new constraints of their own creation. And ultimately, we see ourselves as freedom fighters. "A country with gazelles excels" is our motto. There cannot be a truly free society without growth firms underpinning a healthy economy and generating jobs. You don't have to buy into this, but this is why we wake up and keep plugging away.

"Building Your Company's Vision," the *HBR* article referenced above, also lists several Purposes for well-known companies. Also check out Peter Diamandis' "Massively Transformative Purpose."

WARNING: *Most teams, when asked to determine a Purpose, often describe Brand Promises instead. (The Brand Promise concept is covered in the next chapter.) When asking the five whys, a staffing company might conclude, "We help our clients hire the best talent and save them valuable time in the process." These might be two accurate Brand Promises — Best Talent and Save Time — but the Purpose goes deeper than just describing the attributes of your product or service. For Michigan-based staffing firm EmploymentGroup, for example, the deeper Purpose is "Helping people succeed."*

Out of this single idea should emerge a "stump speech" that the CEO shares repeatedly, reminding everyone of the big picture and "why we do what we do." When CEO Howard Schultz famously shut down Starbucks for a global day of training, it wasn't as much about how to make a better latte as about recentering and reminding everyone of the real Purpose of the company: to be a third place for people to stop in and purchase an affordable luxury after a stressful day. Offering a place to relax in a comfortable setting, Starbucks plays a role similar to what the local pub once did.

Mission, Vision, Values

"Mission, vision, values" likely became a popular moniker of strategic planning because it has a nice ring to it. Our use of related terminology and definitions differs. To clarify:

Mission: We prefer the term "Purpose," which is more heartfelt. "Mission" is more of a military term and usually connotes something shorter in duration (e.g., the kind of short-term assignments found in the popular *Mission: Impossible* television and movie series).

Vision: This is what we cover in the OPSP, from Core Values to the Quarterly Theme and everything in between. If you feel compelled to create a vision statement, you can extract pieces from the OPSP — Values, Purpose, the Big Hairy Audacious Goal (BHAG®), Brand Promises, etc. — and craft them into a soon-to-be forgotten paragraph. (Sorry for the sarcasm, but we're not big fans of vision statements.) It's better to keep these elements of your vision separate in people's minds, so they can remember them more easily. The Vision Summary tool, described in "The One-Page Strategic Plan" chapter, will provide your team with an easy-to-remember summary of your vision.

Values: On this term, we have consensus.

Pick whatever language you prefer — Mission vs. Purpose, for instance — and use the terms consistently.

The Core Competencies

Understanding a company's inherent strengths is essential. Gary Hamel and the late C.K. Prahalad labeled them Core Competencies in their groundbreaking May 1990 *Harvard Business Review* article titled "The Core Competence of the Corporation." Purchase a copy online and have the strategic thinking team read it; then discuss and determine your company's Core Competencies. (See "The 7 Strata of Strategy" chapter for more on this important meeting rhythm.)

A Core Competency has three attributes, according to Prahalad and Hamel:

1. It is not easy for competitors to imitate.
2. It can be reused widely for many products and markets.
3. It must contribute to the benefits the end customer experiences and the value of the product or service to customers.

"Don't define Core Competencies too narrowly."

Don't define Core Competencies too narrowly. Take BIC, the Paris-based company founded in 1945. It is known for the disposable BIC pen. Had BIC seen its Core Competency as simply making cheap pens, it wouldn't be the $2 billion firm it is today. BIC more accurately describes its strength as "making disposable plastic anything," which led it into lighters, razors, and other stationery products.

It's equally important for a company to understand what it is inherently *incapable* of doing, or its core weaknesses. 3M has never been effective at selling direct to consumers, so it has developed a core strength of working effectively with distribution partners. In turn, it has divested itself of certain product lines that the market has forced into direct channels.

As we'll discuss later in the "Strategy" section, your organization's Core Competencies provide boundaries for determining what product and service offerings you should pursue. They are also foundational in helping you determine how to differentiate the company in the marketplace. Once you articulate your Values, Purpose, and Competencies, put them to work in creating an engaged and focused team.

Bringing Your Core Alive

It was during an off-site meeting to prepare for the fourth quarter of 2008 that Appletree Answers decided to tackle turnover among frontline employees at its call centers. While churn among non-exempt employees was only 3%, turnover was 110% for the employees who answered the phones for clients, matching the industry average. "Clearly, we were doing something right for one group but not the other," says Ratliff, the founder.

Ratliff was well-aware that the company's 13 acquisitions to date made it difficult to achieve a cohesive culture. He knew that this lack of cohesion was contributing to the turnover. But he didn't realize that because he and his leadership team were painfully out of touch with the frontline employees' concerns, they were adding to the problem.

The Dream On Initiative

Just how little he knew about the lives of the frontline employees became very clear after Lisa Phillips, the company's director of operations, asked how the company could become more like a

Make-A-Wish Foundation for employees. Her question was in line with Appletree's Core Value "Take care of each other."

After having a small group of employees flesh out the idea, the company launched the Dream On initiative, which it advertised on its intranet and on posters. It asked employees to submit a request tied to one thing they would like to happen in their personal lives. There were no restrictions placed. A secret committee would review the requests.

As the responses trickled in, Ratliff got a crash course in the daily realities that his frontline employees faced. "It was nothing short of shocking," he says. "We started to really get an insight into the challenges of our employees and the situations they had inherited."

Many team members were grappling with health problems or coping with the challenges of caring for elderly parents — factors that affected their ability to juggle their jobs with their lives outside of work. Others were suffering financial problems, having had a period of unemployment before joining Appletree, and they needed a few thousand dollars to get caught up. Seventeen employees simply wished they could own a car to make it easier to get to work.

"I was surprised by the car situation — how a change in a bus route can force our employees to change jobs, or how a previous employer may have changed job hours, which no longer matched public transportation schedules," Ratliff says.

Some of the stories were heart-wrenching. To help employees turn them around, the company decided to provide grants and other resources through the program. One employee was living in the family car with her husband and child, after her mate had lost his job. The company helped the family secure a lease and put up deposit money, also providing furniture and gift cards to help them get set up in their new home.

"We meant to do this privately, but the employee let a lot of people know, and soon it was on our intranet," says Ratliff. "That dramatically increased submissions."

Over time, Appletree Answers used American Express points to send a couple on their honeymoon; flew a mother to see her daughter in the Navy over Christmas; and fulfilled the dream of an employee to take a first family vacation with her disabled daughter.

"What CEOs don't realize is the access you have that other people don't, and how you can create opportunities for people you never would have thought of," says Ratliff.

The program had a profound effect on turnover, given that call centers are usually run like the sweatshops of the Information Age. Not long after Ratliff and his team launched the Dream On initiative, turnover dropped to 20%. While the initiative cost money, it paid a 20 times return on investment in terms of reduced turnover costs in less than a year.

"The overall sense of belonging, of being part of something bigger than themselves or their individual sites, and part of a community, has been one of the biggest changes I've seen in employees," says Ratliff. "I felt more connected to our entire group, and the company became much more human to people."

As Ratliff grew the business, ultimately acquiring 24 companies in less than nine years, his leadership team determined a distinct set of seven Core Values:

- Integrity matters
- Think like a customer
- Spirited fun
- Be quick, but don't hurry (borrowed from legendary basketball coach John Wooden)
- Employees are critical
- Small details are huge
- Take care of each other

They also articulated a Purpose: "Enhancing the lives of customers and employees, one interaction at a time." The key word was "interaction." Appletree handled 25 million inbound calls a year, generating millions of interactions between customers, employees, and supervisors. Ratliff wanted the team to realize they had a conscious choice to enhance or diminish those interactions for everyone involved.

"The Purpose really created a common language," Ratliff says. "Growth companies are good at getting a lot of things done. The worst thing you can do is get a massive amount of the wrong things done. If you have clearly articulated Core Values and a Purpose that are part of your everyday experience, it helps direct that massive action around the right activities."

Appletree had a well-honed process for instilling these Values and Purpose in the employees of each acquired company from the very first day. The idea was to give new and existing employees a reference point to help them make decisions, even when their manager was not available to advise them.

"Appletree's strategy for getting a brand-new group of employees rapidly engaged into our culture was one of our main Core Competencies," said Ratliff. "We actually tracked site-level profitability. By immediately improving the engagement levels of these new employees, we were able to see a 10-point increase in EBITDA." This engagement took place because employees experienced a company where everyone, especially the leadership team, was living the stated Values and Purpose.

Dell's Shock Absorber

When his company reached 50 employees, Michael Dell recognized the need to hire someone to manage the People side of his growing business and serve as a shock absorber between him and the rest of the organization. He recruited Barbara Kreisman from Motorola University. She helped him scale the company to 40,000 people before leaving Dell. (She is currently associate dean of the Daniels College of Business at the University of Denver.)

The HR department is normally one of the last functions to develop fully in a growing company. It normally begins as a part-time responsibility of the founder's assistant, who is told to

> "keep the employees happy" so the CEO can stay focused on the customers and the market in the early days of the business! As the function matures, random lists creep into the organization — a criteria list for hiring, a list of rewards to hand out, and a list of topics for the handbook. Someone typically downloads generic forms from the Web and executes global search-and-replaces to insert the company's name. It's this growing hodgepodge of HR activities that need to be brought back into alignment.

A leader must go beyond merely posting a company's Values and Purpose on the wall and handing out plastic laminated cards. The key is for you to align ALL of your HR (People) systems and processes around one list of your Values and Purpose.

Here are eight ways to use this list to reinforce your culture on a regular basis.

Storytelling

Everybody enjoys a good story, and most great leaders have taught through parable or storytelling. Stories provide the explanation for Core Values that might seem unusual or cryptic on their own. Identify some "legends" and current stories that represent each Value.

To collect great stories about Appletree's Core Values, Ratliff and his team initiated a Core Values Hall of Fame event, held every quarter. Employees were encouraged to look for colleagues whose actions embodied a Core Value and to submit a written story about this. "It was more rewarding for the person who wrote the story than for the person who was recognized when we told the story," Ratliff says.

Some of the stories were dramatic, conveying the meaning of the Core Values better than a corporate HR department ever could. One particular story vividly illustrates the Value "Take care of each other." An employee got a call at 3 a.m. from a woman living upstairs from her parents, who ran a disaster restoration company that Appletree Answers served.

"I'm upstairs. Can you get my dad? It's really important," the caller said, and then the line went dead. The employee could easily have treated this as a prank but instead tracked down the caller's father. Her father went upstairs and found out she was having a heart attack. (She is fine now.)

That story was one of the winners in Appletree's quarterly contest, showing how the value of taking care of each other could go beyond the walls of the company.

Under Ratliff's leadership, Appletree gradually built a rich collection of employee-created content by hiring a documentary videographer. The videographer helped teams of employees create a 90-second video around each of the Core Values. "It wasn't the corporate marketing crap you always get," says Ratliff.

The videographer also created humorous videos around the company's Quarterly Themes (more on this in "The Priority" chapter), which helped transmit the company's Values in a different way. (No one says your discussions of Core Values need to be boring!) In one wacky 2010 series, employees from various offices put together talent shows around the theme of "The Summer of Love" and posted them on YouTube. The idea was to encourage employees to relax after a tough quarter.

Recruitment and Selection

Design your interview questions and assessments to test how candidates align with your Core Values (more on this in "The Team" chapter). Then rate candidates in terms of their perceived alignment with each Core Value. Your goal, after all, is to hire for culture fit. This also applies when you are making acquisitions and deciding which employees to keep on board.

Shape your hiring processes around your Core Values. At Appletree, the online application form asked would-be hires to elaborate on a Core Value. Later, those who made it to the interview stage were asked to talk more about why a Value resonated with them. Interviewers looked for people who genuinely lit up when they talked about a Core Value and weren't just spouting a canned answer. "If we saw feigned interest or an indifferent attitude, we knew it was not going to be a strong culture fit," says Ratliff.

"Hire for culture fit."

Hiring this way helps reduce turnover. "It's amazing how much more effective you can be at hiring when you select people who are excited about your culture before they come to work for you," Ratliff says.

Onboarding Process

Many growth firms lack proper onboarding for new employees. Everyone seems too busy to organize it, and there's a mentality that new recruits are needed on the job from day one. However, a proper onboarding process makes new hires feel welcome and integrates them more quickly into the culture. The key is designing the process around the teaching of your Values and Purpose. (We prefer the term "onboarding" vs. "orientation." It's more than just showing people where the printers and bathrooms are.)

This is what Appletree did whenever it made an acquisition. On the very first day that employees in a newly acquired branch switched over to Appletree's payroll, employees from other locations would arrive to welcome their fellow associates. Appletree's team would share stories and videos created by employees to introduce the company's Values and Purpose.

"We basically said, 'You don't have to live these in your personal life, but if you want to be part of the family we've created at work, these are the Values we've all agreed to work under. This is our shared language and commitment to each other,' " says Ratliff.

It is worth noting that Appletree renamed its HR Department the Employee Experience Department. "The #1 goal of HR was to create better employee experiences, and we wanted them to focus on that," says Ratliff.

See "The Managers" chapter for more onboarding ideas.

Performance Appraisals and Handbooks

Core Values should provide the framework on which you hang your performance appraisal system. With a little creativity, any performance measure can be made to link with a Core Value. In addition, organize your employee handbook into sections around each Core Value.

"Organize your employee handbook into sections around each Core Value."

Ratliff and his leadership team at Appletree made it clear that learning the Core Values wasn't just a feel-good exercise. Employees' performance was scored on how well they acted on the Core Values. For instance, employees would be graded on how well they thought like a customer.

"Anytime you have a discussion with an employee about performance, it's much easier if you have a Core Value you can tie it back to," Ratliff says.

Removing gray areas helped to make performance evaluations more productive, preventing rhetorical debate between managers and employees about what aspects of performance were important, he adds.

"When you both have agreed in advance to the rules of the game," says Ratliff, "it gives you a lot of leverage in your discussion with employees around performance."

It also made it easier for managers to give constructive feedback. "No one could say, 'I made mistakes because I was up against a deadline,'" says Ratliff. "We'd ask, 'How does that marry with, Be quick, but don't hurry?'"

Recognition and Rewards

Organize your recognition and reward categories around your Core Values. You will gain a new source of corporate stories and legends each time a reward or recognition is given to highlight a Value.

In conducting its quarterly Core Values Hall of Fame, Appletree selected a winner for each of its seven Values, based on the stories employees submitted about them. Each winner received a T-shirt imprinted with the corresponding Core Value.

Newsletters

Why struggle to come up with a catchy title for a newsletter when some word or phrase from your Core Values will do beautifully? Highlight one Core Value in each issue, incorporating stories (yes, more stories) about people putting these Core Values to work for the betterment of the company. Add a list of birthdays and anniversaries, and you have a useful newsletter.

If your company doesn't have a newsletter, get creative. Appletree spread the best stories employees submitted about co-workers living the Core Values by publishing them to a portal on the company's website. Appletree also sent every office a plaque printed with each of the inaugural seven stories to hang on the wall. As employees came up with new stories that better embodied the company's Core Values, the company updated the website and the plaques.

Themes

Use your Core Values to bring attention to your corporate improvement efforts. Milliken, the textile manufacturer, takes one of its six Core Values and makes it the theme for the quarter, asking all employees to focus on ways to improve the company around the theme. The worldwide Ritz-Carlton chain goes to the other extreme and highlights one "rule" every day. In either case, establish a rhythm that keeps the Core Values top-of-mind by repeating them.

Everyday Reinforcement (The Most Important Step)

Having managers who are engaged, every day, in reinforcing the company's Values and Purpose through their decision-making is the most important routine of the eight.

Ratliff made sure that frontline employees saw that they weren't the only ones who were expected to act on the company's Core Values. The leadership team very openly used its Values to make decisions about taking on new business and continuing to work with existing clients.

"One of our Core Values is 'Employees are critical,' " Ratliff notes. "If we had a customer who was abusive to employees, we'd have a conversation with them. If the customer would continue to be abusive, we would fire the customer."

The company's Core Value of "Integrity matters" also played a role in vetting new customers. "We often turned down companies that were on the fringe of integrity," says Ratliff. "A lot of companies would want to use us to shield them from angry customers they treated poorly. Some got into trouble and had a PR nightmare and wanted to come to us, so we would take all the angry customer calls. We wouldn't do that if we thought the reason the customers were mad was the company didn't act with integrity on the issue."

Your Core Values shouldn't be a marketing initiative, says Ratliff. At Appletree, he says: "We would talk about the Core Values all day, every day. They were part of our DNA."

Your Core Values will probably be different than Appletree's, but they should be just as much a part of daily life at your company.

Carrots and Sticks — Tie to Values and Purpose

Managers basically have two tools — carrots and sticks — and hopefully, they use more carrots than sticks or they are badly in need of a course subtitled "Anger Management"!

Every time you praise or reprimand someone, tie it back to a Core Value or Purpose. "The reason I'm excited about this new chat window on the website is it's exactly what will help us create 'ecstatic customers.' " Or "The reason I'm blowing a gasket is this is the opposite of what we mean by 'first class for less.' "

"Every time you praise or reprimand someone, tie it back to a Core Value or Purpose."

We've found that managers and CEOs can repeat Core Values endlessly without it seeming ridiculous, as long as the Core Values they're using are relevant and meaningful to their employees and they make connections to real situations. When you make a decision, relate it to a Value. When a customer issue arises, compare the situation to the ideal represented by the Value. Small as these actions may sound, they probably do more than any of the aforementioned strategies to bring Core Values alive in your organization.

Results?

In the end, does all this "soft" stuff matter or is it just a bunch of feel good consulting tricks to keep everyone distracted? As mentioned earlier, at Appletree Answers, Ratliff and his team were able to drive employee turnover down from an industry annual average of 200% to below 20%. In turn, they were able to drive profit up from an industry average 4% to 21%. And when it came time to sell, the firm commanded a 14 times multiple sales price vs. the industry's typical three times multiple. So, yes, getting the Core right and using it to drive the business makes great business sense besides creating a great place to work.

The Core also serves as a foundational piece to setting strategy, as we'll discuss in the next two chapters.

7

THE 7 STRATA OF STRATEGY

The Framework for Dominating Your Industry

EXECUTIVE SUMMARY: *Without a powerful, industry-dominating strategy, you'll spend the next several years generating very little traction in the marketplace. To address this challenge, we've integrated several of the best-known strategic concepts into one comprehensive framework — called The 7 Strata of Strategy — for scaling up your business. The 7 Strata defines the complete brand — and then everything aligns with this. And it provides an agenda for the strategic thinking team to create and maintain a competition-crushing, differentiated approach to a specific market. There are recommended resources to bolster your team's understanding of each stratum. It's hard work, which is why we suggest you assign this effort to a handful of leaders.*

The recession decimated the building industry after the global financial crisis, but Vancouver, Canada-based BuildDirect.com, which sells building materials through its website, has doubled sales each year since Jeff Booth and Rob Banks founded it in 2003. Its 2014 run rate is $200 million, and it's quickly heading toward a billion. Why? Strategy!

> *"More companies die from indigestion than starvation."*

When you nail your strategy, top-line revenue growth and fat margins come almost effortlessly. For those experiencing this kind of rapid and sustainable growth, skip this chapter. (We're serious!) Don't risk messing up your winning strategy. Your only challenge, like that of BuildDirect.com, will be to heed the warning made famous by HP's Dave Packard, who was once advised that "more companies die from indigestion than starvation."

For leaders of companies that are not buried by too much business, read on. Without an effective strategy, you're going to spend the next several years executing a plan that is less than optimal and leaving a pile of money on the table. Worse, you'll keep the doors open for savvier competitors to swoop in and take over your industry.

Using BuildDirect.com as a case study (along with ample other examples), we'll walk you through the one-page 7 Strata of Strategy tool it used to dominate its industry. The 7 Strata is a comprehensive framework for creating a robust strategy that differentiates your company from the competition and helps you establish the kind of roadblocks that allow you to dominate your niche in the marketplace.

For those familiar with the One-Page Strategic Plan (OPSP), think about the 7 Strata framework as the "page behind the page" — a worksheet drilling down into the details of your Sandbox (WHAT you sell to WHOM and WHERE), Brand Promises, and the Profit per X and Big Hairy Audacious Goal (BHAG®), which are highlighted in columns 2 and 3 of the OPSP.

The idea is to use the 7 Strata worksheet to answer a series of strategic questions and plug some of the answers into the appropriate spaces on the OPSP. The questions will help you make key strategic decisions. Why aren't there spaces for all the 7 Strata answers on the OPSP? Because some should be kept confidential, and others cover details behind a few specific decisions summarized on the OPSP.

With each of the 7 Strata (levels) of decision-making, we'll share a KEY RESOURCE to help you dig deeper into that particular aspect of your strategy. In most cases, entire books have been written about the Strata, and where an appropriate one exists, we refer to it. We strongly suggest dividing up the workload and having each executive team member read one of the recommended books or articles and then brief the rest of the executives. Strategy is what a senior team should be spending the bulk of its time on, anyway — not fighting fires on a day-to-day basis, which is best left to the middle managers.

NOTE: *If this work were easy, every company would have a killer strategy. The process can be very uncomfortable for CEOs, who might feel they should already have all the answers. After all, it's the CEO's primary job to set and drive the strategy of the business. At the same time, it's a very messy and creative process requiring lots of learning and talk time with a myriad number of customers, advisors, and team members. This can be particularly difficult for engineering types who want to follow a sequential process to finding the right answers. It just doesn't happen that way.*

Of all the methods we teach, this is the one where you must truly "trust the process." Persevere, keep searching (it took Wayne Huizenga, a very savvy serial entrepreneur, several years to find the key to making AutoNation's strategy work), and the magic will occur.

Strategic Thinking Team — The Council

As mentioned in "The Overview," it's helpful to think about *strategic planning* in terms of two separate and distinct activities (and teams): *strategic* thinking and execution *planning*. The 7 Strata framework is one of the key tools guiding the strategic thinking agenda of the company. The 4Ps of marketing (Product, Place, Price, and Promotion) is the other guiding framework. From our perspective, marketing strategy = strategy. For an update to the 4Ps, search the Internet for ad agency Ogilvy & Mather's 4Es of marketing (Experience, Everyplace, Exchange, and Evangelism), and add these to your marketing meeting and strategic thinking agendas.

"It's not sufficient to schedule thinking time just once every quarter or year."

The first step in completing the 7 Strata and working through the 4Ps or 4Es of marketing is designating a strategic thinking team. Select no more than three to five people to meet for an hour or so each week to discuss each of the Strata and other issues of strategic importance. It's not sufficient to schedule strategic thinking time once every quarter or year. It's all about iterations: making a few decisions, testing them, and coming back to the table the following week for discussion. It's these ongoing weekly meetings that will keep your strategy relevant and fresh.

Jim Collins refers to this team as "the council." Grab a copy of Collins' *Good to Great: Why Some Companies Make the Leap... And Others Don't* and read the three most important pages ever written in business — Pages 114 to 116 — where he describes the 11 guidelines for structuring such a council. Included are recommendations on who should be on this council. Besides a few key members from the senior team, you might include someone with specific industry or domain knowledge underpinning your strategy.

The council doesn't accomplish its work in isolation. The council members are expected to spend time each week talking with customers and employees and checking out competitors, extracting insights and ideas to fuel their strategic thinking. People get the sense that geniuses like Steve Jobs sat around humming in a lotus position, hoping divine intervention would strike. To the contrary, Jobs spent most afternoons engaged directly with customers, much to the chagrin of his team. And, underscoring the link between strategy and marketing, he chaired only one function — marketing — via a three-hour, Wednesday-afternoon meeting.

Jim Collins emphasizes that holding the council isn't a consensus-building exercise. The team members are there to give advice to the CEO. And they are there to help the company illuminate the winding road ahead, which is why strategist Gary Hamel calls these groups "headlight teams." The key is to help the CEO see beyond the speed at which the company is growing so he or she can keep the company from careening off the side of the road.

In the end, strategic decisions need to be made, and it's the job of the CEO to make them. Yet it's advisable to recruit several pairs of eyes (and to have frequent contact with the market) to help you navigate.

Lords of Strategy

The creation of the 7 Strata of Strategy framework was inspired by a book written by Walter Kiechel III, a former *Fortune* editor and Harvard Business Publishing editorial director. Titled *Lords of Strategy: The Secret Intellectual History of the New Corporate World,* it chronicles the relatively short 50-year history of corporate strategy and the four men who were the pioneers in the field. For leaders interested in the topic of strategy, it's an invaluable resource documenting, in one easy-to-read package, the frameworks used by Boston Consulting Group, Bain & Co., McKinsey & Co., Porter Consulting, and many others.

What struck us, as we read the book, is how overly complex many of the models are. They were designed for large global conglomerates. At the same time, stating a simple definition of one's market (or Sandbox) and a few Brand Promises, as required on the OPSP, was too simplistic.

There needed to be something in the middle — for middle-market firms — that integrated several important aspects of strategy, and thus was born the 7 Strata of Strategy framework. We tested it with several firms for three years and found that it drove the exact kinds of strategies that helped companies like BuildDirect.com dominate their industries. We knew then that we had something powerful, yet simple enough to help gazelles scale.

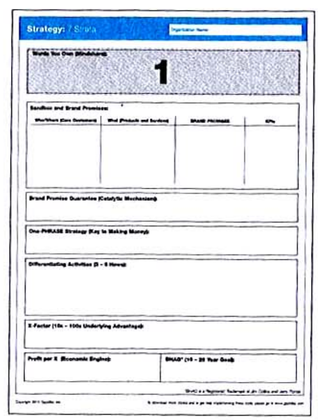
Again, for those interested in the relationship between the 7 Strata and the OPSP, think of the 7 Strata as the pure "strategic thinking" piece of the strategic planning that the OPSP guides. As we take you through each of the 7 Strata, we suggest that you download the one-page worksheet at *scalingup.com* and follow along. Here are the 7 Strata:

1. Words You Own (Mindshare)
2. Sandbox and Brand Promises
3. Brand Promise Guarantee (Catalytic Mechanism)
4. One-PHRASE Strategy (Key to Making Money)
5. Differentiating Activities (3 to 5 Hows)
6. X-Factor (10x – 100x Underlying Advantage)
7. Profit per X (Economic Engine) and BHAG® (10- to 25-year goal)

NOTE: *Most strategy frameworks include some kind of competitive analysis. As you work through the 7 Strata, it's illuminating for the team to discuss how the competition might fill in each level — and to do the same for firms you highly respect outside your industry. This will give you additional insight into the market, the competition, and ways to differentiate your strategy.*

Words You Own (Mindshare)

KEY RESOURCE: Search Engine (Google, Bing) tools



No one can own the word "automobile" in the minds of the marketplace, but Volvo owns "safety." Meanwhile, BMW has molded every decision about the design and marketing of its cars around two words: "driving experience." Though BMW is also considered a luxury and performance vehicle, the company's obsession with the driving experience is what continues to differentiate the car from other mass luxury vehicles.

If you're lucky, the name of your company becomes the word you own, like Facebook. Or your company name can clearly describe what you do and represent the words you want to own in the minds of your market, like "trench safety." If you're entrepreneurial, you can name a new niche and then own it by default. J. Darius Bikoff did this in the bottled water industry in 1996. No one could own "bottled water," but he added some vitamins and minerals and created the first new beverage category in 25 years, called "enhanced waters." Though consumers were unaware of this term, Bikoff's Glacéau brands captured the attention of the big players in the industry. Coke snatched up the company for $4.1 billion just over a decade later.

The developers of Snapchat combined these ideas, creating a new category of chat and cleverly naming the venture after the two words the application now owns in the minds of the market. Launched in September 2011, the company now has a multibillion-dollar valuation.

It's a fun and useful exercise to think of well-known brands (and your competition) and discern the words they own. In the end, that's what branding is all about: owning a small piece of the mind-space within a company's targeted market, whether that's in a local neighborhood, an industry segment, or the world. If you want to hurt a competitor, steal its word, as Google did with Yahoo, becoming the "search" engine of choice.

Since 87% of ALL customers (business, consumer, and government) search the Internet to find options for purchasing products and services, you need to dominate these search engines. The key is owning words that matter — the ones people think about and use to search for your products and services.

"The key is owning words that matter."

These search engines are useful tools for discerning your company's or competitors' success at owning a certain set of words. Take a moment to search the words or phrases you think you should own in the minds of your customers, and see how high your company ranks — or whether your lesser competitors are outranking you. Then go to the Google AdWords Keyword Planner to see how many times someone has searched for your target word or phrase. More important, this tool will show you what related words are searched and with what frequency, both locally and globally. This will help you refine the words you choose to dominate.

The tool will tell you how many advertisers are bidding for a particular term in the Google AdWords program. It also gives you a sense of the difficulty you will face if you want to own that search term, letting you know if the competition is low, medium, or high.

Your first instinct may be to go after the most popular terms, whether you are planning to use paid advertising or "organic" search engine optimization techniques. However, you may be better off picking slightly less used but still popular terms to point potential customers to specific products or services you offer.

Then take a page from the best-selling book *The New Rules of Marketing & PR: How to Use Social Media, Online Video, Mobile Applications, Blogs, News Releases, and Viral Marketing to Reach Buyers Directly.* As author David Meerman Scott says, "You are what you publish." Hire writers and videographers to create case studies, white papers, and videos that naturally catch the attention of the search engines (and media) and educate the customers about the words you want to own. Videos and images have dominated over text ever since Google purchased YouTube.

BuildDirect has dived into this approach. While it is armed with a clever name that describes what it does, co-founder and CEO Booth knows that customers don't think, "I'm looking to purchase building supplies direct." BuildDirect has created algorithms that help customers find products in just a handful of the thousands of building product categories — the ones the company has decided it can dominate. It has optimized its website so that it will show up high in natural Web searches — meaning unpaid searches — for terms such as "laminate flooring" and "hardwood flooring." If you go to the company's website, you'll see that it's prominently displaying these terms on the home page, along with photos. Are you doing the same?

BuildDirect has built its search engine rankings for its chosen terms by publishing unbiased content — which includes these keywords — to help customers tackle their building projects. These articles, housed within the BuildDirect Learning Center, aren't thinly disguised commercials for BuildDirect.com. They are useful, well-written articles that might otherwise appear in a home remodeling publication. One division is the Laminate Flooring Learning Center. This section is chockfull of useful information aimed at homeowners considering this flooring choice, such as a description of laminate flooring, with its pros and cons, an explanation of the manufacturing process, a listing of the types of laminate flooring, cleaning and care information, and a buying guide.

If you were stumped about whether to go with wood flooring or laminate, the information would be helpful — and that's why it pulls in visitors to the site. "Our key customer is Debby the Do-It-Yourselfer," explains Booth. "We try to arm her with as much information as we can to help her make an unbiased decision." People don't want to be sold; they want to be educated.

The site's clientele extends beyond home improvement buffs. Many professionals in the building trades also purchase materials through the site, and the content is sophisticated enough to give them the information they need to serve their customers well, too.

By focusing the site on the customer and his or her needs — and not on tooting its own horn — BuildDirect.com has taken control of the words it wants to own in its marketplace. And, as a result of this smart strategy, much of its business comes in through customers' unpaid Web searches for terms such as "laminate flooring," says Booth. This is what is driving the company's phenomenal revenue growth.

For more on how to use content to drive revenue, read Joe Pulizzi's highly insightful *Epic Content Marketing: How to Tell a Different Story, Break through the Clutter, and Win More Customers by Marketing Less.*

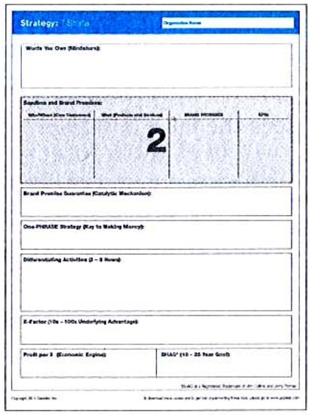
If you focus on only one of the 7 Strata, this first one is the most important in driving revenue. The rest help you defend your niche, simplify execution, and turn your revenue into huge profit.

NOTE: *Owning a word or two also applies to your personal brand (e.g., Tim Ferriss owns the term "4-Hour.") Here's a link to a piece Verne wrote as a LinkedIn Influencer titled "Your Career Success Hinges on One Word: Do You Know It?":* http://tiny.cc/success-one-word

Dominating the search engines isn't the only test. Your identity as the maker of the safest car or the "king of enhanced waters" might be well-entrenched in the minds of the right people, and therefore it might not be necessary to pop high in searches. The key is picking a niche and owning (or creating) the words in the minds of the people you want as your core customers.

Sandbox and Brand Promises

KEY RESOURCES: Robert H. Bloom and Dave Conti's book *The Inside Advantage: The Strategy That Unlocks the Hidden Growth in Your Business*, and Rick Kash and David Calhoun's book *How Companies Win: Profiting From Demand-Driven Business Models No Matter What Business You're In*



There are four key decisions to make on stratum 2:

1. **Who/Where** are your (juicy red) core customers?
2. **What** are you really selling them?
3. What are your three **Brand Promises**?
4. What methods do you use to measure whether you're keeping those promises? (We call these the Kept Promise Indicators, a play on the standard definition of **KPIs**.)

Who/Where: Bloom and Conti, authors of *The Inside Advantage,* implore companies to get crystal clear about Who and Where their juicy red core customer is — the customer from whom the business can mine the most profit over time. Their warning is to define customers beyond a pure demographic. For Nestlé's Juicy Juice, pigeonholed early on as just another sugary drink for children, Bloom's team redefined the Who as "a mom who wants her young children to get more nutrition." For a particular nurse-staffing firm, the core customer is actually members of its team — the travelling nurses it places with hospitals — due to a global shortage of nurses. Bloom and Conti's book will help you discern a concrete definition of your core customer.

Kash and Calhoun, authors of *How Companies Win,* further suggest that there is a niche within any industry that represents no more than 10% of the total customers but holds a disproportionate percentage of the profit — what are termed profit pools. For instance, in the dog food industry, Kash's team segmented the market based on the relationship between an owner and her dog (vs. the size of the dog) and found a group of owners they labeled "performance fuelers." These are owners who are active — biking, hiking, jogging, and running — and want their dog with them. Though they represent only 7% of all dog owners, they account for more than 25% of the profitability in dog food purchases. The key is finding that same niche in your industry and owning it through a highly focused product or service offering.

Once you know more specifically Who they are, it's much easier to know Where to find them. The performance fuelers can be reached locally on a few key trails and via a couple of popular news sites and blogs.

For BuildDirect.com, as mentioned above, the core customer is "Debby the Do-It-Yourselfer," not simply women ages 35 to 55. She represents a very specific persona and is highly predictable in where she can be reached — reading certain publications, shopping certain sites, and searching for specific products.

What: Bloom and Conti suggest that the primary mistake companies make in describing What they sell is to focus on the benefits and features. All sales are emotional, initiated through the heart ("No one was ever fired for buying IBM") and then justified logically by the head. That's why established brands play on people's fear of purchasing from a new entry in the marketplace.

Summit Business Media (now Summit Professional Networks), an example that Bloom and Conti use in their book, offers "the indispensable source of authoritative information, data and analysis for the well-informed financial professional." The concepts that the company is irreplaceable and helps its clients stay well-informed play to the financial professional's emotional needs as much as business needs.

Kash and Calhoun add that the What must encompass a 100% solution. Many business leaders are easily distracted by shiny objects; they move on too quickly to another product line, distribution channel, or niche before thoroughly locking down an existing one with an offering that completely does the job a customer needs to accomplish.

Winterhalter Gastronom GmbH, a German manufacturer of commercial dishwashing equipment, dominates the market in selling to large restaurant and hotel chains. These companies operate in a 24/7 environment and need dishes that not only are clean but look clean. Winterhalter engineered a complete solution for this niche, which included supplying water conditioners, specialty detergents, and a global quick-turnaround repair service to customers.

Brand Promises: Debby the Do-It-Yourselfer wants laminate flooring, and BuildDirect grabs her attention. So why should she buy from BuildDirect vs. its competitors? There have to be some compelling reasons that are evident from the moment she visits BuildDirect's website. We call these reasons the Brand Promises. Most companies have three main Brand Promises, with one promise that leads the list.

For BuildDirect, the Brand Promises are "Best price, best customer service, and product expertise." "Best price" is the lead promise. The key is to define the company's Brand Promises quantitatively so they can be measured and monitored. Best price, in BuildDirect's case, means 40% to 50% less than anyplace else where you can purchase a similar product. BuildDirect has teams monitoring prices daily to make sure that it can keep this promise, or that it exits certain products and categories when it can't.

WARNING: *Refrain from using the words "quality," "value," or "service" as Brand Promises. They are too vague. Their definitions may vary, depending on the group of customers you're facing. McDonald's delivers what Verne considers high value and service if it's noon on Saturday and he and his wife are looking for a place where they can grab a quick bite with their four children without standing in a long line, and get a few minutes of peace while their two youngest play in the indoor playground. However, as a place to go on a date night, McDonald's has little value to them. McDonald's has defined its three measurable brand (value) promises as speed, consistency, and fun for kids. Getting clear about this and then delivering on these promises (including sending specific updates on these KPIs to its franchise owners daily) helped it pull off one of the most respected modern business turnarounds.*

The right Brand Promise isn't always obvious. Naomi Simson — founder of one of the fastest-growing companies in Australia, RedBalloon — was sure she knew what to promise customers who want to give experiences such as hot air balloon rides as gifts, rather than flowers and chocolates. Her promises included an easy-to-use website for choosing one of over 2,000 experiences; recognizable packaging and branding (think Tiffany blue, only in red); and onsite support.

It wasn't until a friend and client mentioned that she was using the website as a source of ideas — but buying the experiences directly from the vendors — that Simson had an "Aha!" moment. She realized that other customers might be doing the same thing, assuming that RedBalloon must be marking up the price of the experiences to cover the costs of the website, packaging, and onsite support. To grow the business, she promised customers they would pay no more for the experiences they bought through RedBalloon than for those purchased directly from the suppliers; otherwise, customers would get 100% of their fee refunded. The company calls this promise, which is technically a pricing guarantee, a "100% Pleasure Guarantee," to fit its brand.

KPIs (Kept Promise Indicators): A promise has no weight if you don't keep it, resulting in lost customers and negative word-of-mouth publicity. Thus, it's critical that you know how to measure daily whether you're keeping your promises. At RedBalloon, Simson created a team that monitors pricing of its roughly 2,000 experiences to make sure that her customers can't buy the experiences more cheaply from other vendors. This isn't easy. The prices that suppliers charge for experiences like jet boating are subject to constant change because of factors such as fuel price fluctuations and insurance costs.

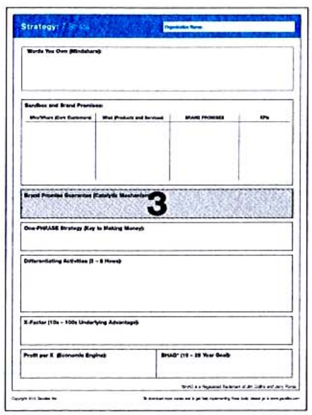
Rackspace, offering cloud-based hosting, is another company that has mastered Brand Promise KPIs. The company, based in San Antonio, has built its brand around the promise of "fanatical support." This phrase appears smack in the middle of its website: "Fanatical Support: Over 1,400 trained cloud specialists, ready to help."

The company measures its success in meeting this Brand Promise in three ways. The #1 measurement is uptime of a client's site. Rackspace offers a money-back guarantee if there's any downtime. If there is a problem, and a customer has to call in, that call will be answered in three rings. Rackspace installs red lights in its call centers that start to spin if a call is getting ready to go to a fourth ring. So that a customer doesn't get transferred, that call will be answered by a level two tech. That's what the customers want. Rackspace measures its performance on these three things, obsessively, every moment: uptime, calls answered in three rings or fewer, and lack of call transfers. The data is streaming all over its facilities. That's how Rackspace grew from nothing to a market cap of more than $6 billion in a dozen years.

The BuildDirect team, similarly, has various Kept Promise Indicators it monitors to make sure everyone is keeping the company's Brand Promise. Besides keeping an eye on competitors' pricing, the company has set countless measures for how long someone is on a certain landing page; how long it takes for a customer service rep to respond to a question; and how simple it is for customers to find what they need and purchase it.

Brand Promise Guarantee (Catalytic Mechanism)

KEY RESOURCE: Jim Collins' *Harvard Business Review* article "Turning Goals Into Results: The Power of Catalytic Mechanisms"



It needs to hurt to break a promise; otherwise, it's too easy to let the moment pass. This is why Collins labeled what we call a Brand Promise Guarantee "a catalytic mechanism." By promising to refund 100% of a RedBalloon gift voucher's cost if the customer can find the experience for a cheaper price, the company's guarantee puts heat on Simson's team to keep their pricing promise.

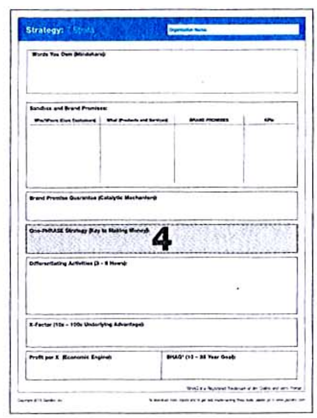
The Brand Promise Guarantee also reduces customers' fear of buying from you. In its early days, Oracle promised that enterprise software would run twice as fast on its database software as on competitors' (in full-page ads on the back of *Fortune* magazine), or it would pay customers $1 million. Today, it offers a similar guarantee on its Exadata servers, except the reward is $10 million.

Professional service firms might offer "short pay" guarantees, giving the client an option to pay whatever he thinks reasonable if there are issues. Though 99% of clients won't send less, the existence of the guarantee gives them the confidence to do business with the service firm and encourages customers to share their concerns.

In BuildDirect's case, the company offers a 30-day, no-questions-asked money-back guarantee — and it will even pay the return shipping. This catalytic mechanism assures Booth that his team is focused on helping a customer choose the right building products.

Jim Collins' article will give you many more examples, as will the marketplace, when you start paying attention to what other companies are doing to guarantee their promises.

One-PHRASE Strategy (Key to Making Money)



KEY RESOURCE: Frances Frei and Anne Morriss' book *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*

Do you dare to be bad? Even risk alienating or upsetting a large segment of potential customers? This is precisely what highly profitable and successful companies do, according to Frances Frei, a leading strategy professor at Harvard Business School, and Anne Morriss.

The first three Strata — owning mindshare, making and keeping promises, and backing them up with a guarantee — are expensive to accomplish. Making matters worse, in trying to address ever-increasing customer demands, the marketplace ends up "want, want, wanting" your margins away as the competition ramps up the "feature set and added services" war.

This is why it's critical to identify your One-PHRASE Strategy. This phrase represents the key lever in your business model that drives profitability and helps you choose which customer desires to meet and which ones to ignore.

Take IKEA's business model, based on "flat pack furniture." Since IKEA doesn't have to ship or warehouse air, its costs are considerably lower than competitors', giving it a huge price advantage (its #1 Brand Promise). Add to this a flair for design and the best Swedish meatballs on the planet, and you have three Brand Promises that outweigh all the things people hate about IKEA — and it's a long list!

Yet it's specific trade-offs that power IKEA's success and serve as a blocking strategy to competitors. Others simply don't have the stomach to make people drive out of their way to visit a warehouse designed like a labyrinth, committing customers to a lengthy shopping experience. Pile on the need for assembly after the purchase, and it's crazy to think anyone would shop at IKEA. And a lot of people don't. But with just 6.8% global market share, IKEA is the world's largest and most profitable furniture chain.

Apple's One-PHRASE Strategy has been its "closed architecture," the source of its phenomenal profitability. It also serves as a powerful blocking strategy, since Google and Microsoft are beyond the point of no return and would never be able to close their open systems. Again, most of the consumers in the world don't find the trade-offs worth it, but that hasn't kept Apple from being the most valuable company in the world.

Frei and Morriss' overarching point is that great brands don't try to please everyone. They focus on being the absolute best at meeting the needs/wants of a small but fanatical group of customers, and then dare to be the absolute worst at everything else. In turn, competitors, in striving to be the best in everything for everyone, actually achieve greatness in nothing — and end up as just average players in the industry.

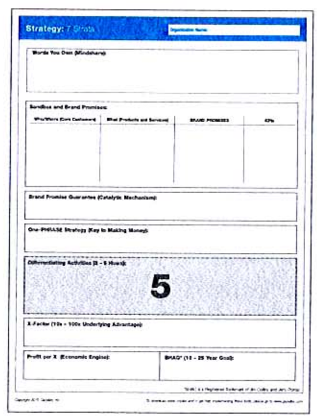
We would share BuildDirect's One-PHRASE Strategy, but we strongly suggest that the company keep it a strategic secret. Again, you don't want to run around bragging about the key driver of your business's profitability, at least in the early years.

The book *Uncommon Service* will give you a myriad number of examples and walk you through how to both "be bad" the right and highly profitable way and "be great" via a few Brand Promises. It takes real guts to ignore or even alienate 93% of customers, focusing instead on the 7% of the market that is fanatical about you and willing to put up with the trade-offs.

Differentiating Activities (3 to 5 Hows)

KEY RESOURCE: Michael E. Porter's classic 1996 *Harvard Business Review* article titled "What Is Strategy?"

Underpinning the One-PHRASE Strategy is a set of specific actions that represent HOW you execute your business differently from the competition. According to well-known strategist Michael Porter at Harvard Business School, it's at the "activity" level of the business where true differentiation occurs and the business model is revealed.



NOTE: *This is the first time the term "differentiation" has been used. Competitors can pursue owning the same words, make the same Brand Promises, and offer the same guarantees. However, it's HOW you deliver on your promises where differentiation occurs. Adds Kevin Daum, author of* ROAR! Get Heard in the Sales and Marketing Jungle: A Business Fable, *"a true differentiator can only be defined as something your competitor won't do or can't do without great effort or expense. Often these can take years to develop since if it can be done cheaply, easily and quickly it provides little or no competitive advantage."*

Again, Porter's point is that this happens at the activity level of the business, as illustrated by the Southwest Airlines case he highlights in his *HBR* article referenced above. Southwest has a handful of hard-to-copy activities that differentiate it from competitors. In addition to not having advance-reservation seating, the airline flies just one type of aircraft (reducing the number of repair parts needed and giving it more flexibility to swap pilots), utilizes second-tier airports to reduce landing fees, favors point-to-point flights vs. the more expensive hub-and-spoke system, and nurtures a quirky culture that helps customers put up with all the negatives.

These activities serve as blocking factors precisely because all the other airlines, except copycat Ryan Air, are already invested in multiple aircraft, provide advance-reservation seating (it's hard to take away something away you've already given the customer), are locked into expensive hubs, and have built cultures of unhappy employees!

The key is to choose HOW you go about delivering your products and services in your industry in ways that are nearly impossible for your competition to copy. Notice that these activities derive from Southwest's One-PHRASE Strategy — "Wheels Up" (its expensive hunks of metal make money only when they are in the air) — helping the airline achieve this key result that drives profitability. Each layer of the 7 Strata of Strategy builds upon and reinforces the others.

In BuildDirect's case, the reason it can offer such outstanding pricing, service, and guarantees is that there are a handful of unique ways in which it has structured the business model that afford it the ability to deliver on its Brand Promises. Specifically, BuildDirect:

1. Requires a minimum order of a pallet of material
2. Carries no name-brand products and instead provides a distribution channel for a number of small manufacturers with outstanding products
3. Requires cash in advance, even on its largest orders, which can be in the six figures

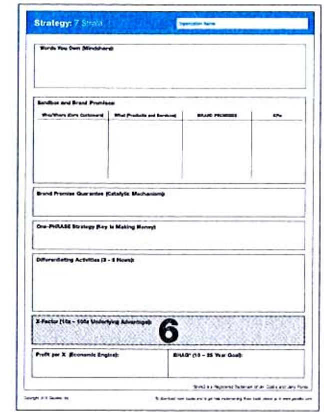
A particular competitor might share one of these approaches with BuildDirect, but it's the unique combination of all three that underpins its differentiation. And it's the distasteful nature of some of these activities — derived from its secretive One-PHRASE Strategy — that blocks the competition from copying them.

Read Porter's article, along with *Uncommon Service,* and establish a set of activities — "how" you run the business — that is different from the norms of the industry, helps you drive profitability, and blocks the competition. This is a lot for a handful of activities to accomplish, but this is the source of your differentiation. Do the work!

As Porter summarizes, "A company can outperform rivals only if it can establish a difference that it can preserve."

X-Factor (10x-100x Underlying Advantage)

KEY RESOURCE: Verne's *Fortune* article titled "The X-Factor": *http://tiny.cc/the-X-Factor*



Why would BuildDirect allow us to share the details of its strategy? It's because of a hidden X-Factor — a 10x-100x underlying competitive advantage over its rivals. Normally invisible to customers, this edge underpins the strategic activities described above and blocks competitors from even trying to copy BuildDirect. And it typically addresses a huge, established choke point in an industry.

Once you have such an advantage, it will usually let you decimate the competition, allowing you to sustain the kind of rapid growth that BuildDirect has sustained for more than a decade.

As Verne has discussed in *Fortune,* Chris Sullivan made the Outback Steakhouse restaurant chain successful by focusing on an early X-Factor. After working extensively in the restaurant industry, he knew the primary challenge for large restaurant chains is maintaining consistency in food quality and service. But why? As he continued to peel back the layers, he concluded that it was due to the industry's average six-month turnover of general managers in stores, a statistic considered to be "just the way it is in the restaurant business." Good managers were typically moved around to take over for bad managers, and great managers would eventually leave and start their own restaurants.

Recognizing manager turnover as the choke point in the industry, Sullivan and his team asked themselves a key question: What if we could keep a restaurant manager in the same restaurant for five to 10 years? This would represent a 10x to 20x improvement over the existing situation in the industry.

The key for Sullivan turned out to be an unusual compensation plan (think "differentiated activity"). Young people interested in becoming managers were asked to "invest" $25,000 in an Outback restaurant. Imagine one of your children coming home and sharing that they found a job managing a restaurant. After expressing your initial skepticism ("What, managing a steakhouse after obtaining a four-year degree?"), you get around to the all-important question: "So what does it pay?" Whereupon she explains that she actually needs to pay the company to get the job!

Here was the deal Sullivan pioneered: New managers would invest $25,000 and commit to staying for five years. Outback would take the first three years to train them to run a restaurant, paying a competitive wage. During the last two years, the new managers would get to run a restaurant on their own. If they hit certain performance milestones by the fifth year, they would get a $100,000 bonus — a 4x return on their investment — which would vest over the next four years. If they signed on to stay at the same restaurant another five years, they would receive the $100,000 in one lump sum, plus $500,000 worth of stock that would vest over the next five years.

The company ended up turning a bunch of people in their 20s into millionaires; 90% of managers stayed in the same restaurant for five years; and 80% stayed for 10 years or more. Most important, Outback's theory was correct. The longevity of management led to consistency in products and service, helping Outback become the third-largest restaurant chain in the US, and the most profitable, before Sullivan stepped aside as CEO. (He's now back turning around the company as this book goes to print.)

So how do you figure out an X-Factor? Start by asking: What is the one thing I hate most about my industry? What is driving me nuts? What is the choke point constraining the company? It could be a massive cost factor. It could be a massive time factor. The challenge is that you're often too close to the situation and as blind as everyone else to the real problems that have been accepted as industry norms.

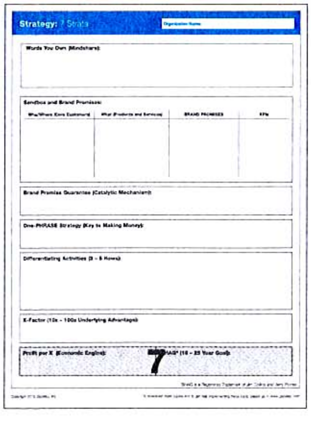
One clue to the source of the X-Factor is going back to your last 10 trade association meetings and gathering the titles of the various breakout sessions. Put them in an Excel spreadsheet, and see if there are any patterns of challenges facing your industry over the past decade. By focusing on these roadblocks, and figuring out a 10x to 100x advantage, you'll have a huge leg up on the competition.

And you don't have to run a business the size of Outback to put this principal into practice. Barrett Ersek, founder of lawn care company Happy Lawn, reduced the typical sales process from three weeks to three minutes. Using the latest digital technology and tax map data to estimate lawn measurements and offer instant quotes while customers were on the phone, he eliminated the need to have salespeople visit prospects' homes and take manual measurements, write up quotes, and then schedule appointments. It's not surprising that industry giant ServiceMaster bought Ersek's $10 million company. At Holganix, Ersek's new company — which manufactures and distributes organic fertilizer — he's identified another X-Factor. But, like his One-PHRASE Strategy, he's keeping it a secret.

BuildDirect's X-Factor also remains a secret, as it should. But you can go to Verne's *Fortune* article for additional examples. Then start brainstorming with your strategic thinking team about some possible 10x advantages.

Profit per X (Economic Engine) and BHAG® (10- to 25-Year Goal)

KEY RESOURCE: Jim Collins' Hedgehog Concept in *Good to Great: Why Some Companies Make the Leap... And Others Don't*



The final two decisions cap the strategy with a single overarching KPI that Jim Collins labels "Profit per X" and a measurable 10- to 25-year goal referred to as a BHAG®, a term that Collins and Jerry I. Porras introduced in their book *Built to Last: Successful Habits of Visionary Companies.* Both decisions round out Collins' strategic framework that he calls the Hedgehog Concept in *Good to Great.*

The Profit per X metric represents the underlying economic engine of the business and provides the leaders with a single KPI they can track maniacally to monitor the progress of the business (a great luxury to have).

Though the numerator can be any metric you like — profit, revenue, gross margin, pilots, routes, etc. — the denominator is fixed and represents your company's unique approach to scaling the business. And it generally ties back to the One-PHRASE Strategy (all of this stuff links together). While most airlines focus on profit per mile or profit per seat, Southwest focuses on maximizing profit per plane, which aligns with its One-PHRASE Strategy of "Wheels Up."

As we saw in Alan Rudy's story in Chapter 2, he took a similar approach in the business of answering phones. While everyone else focused on revenue per minute and profit per minute, he looked at the industry through a different lens and drove the business to maximize profit per booked appointment. The result: revenue reached an industry high of $5 per minute, vs. an average of $1.25 per minute. At Gazelles, we used to obsess over profit per event; now it's profit per long-term client.

Big Hairy Audacious Goal (BHAG®)

As leaders set the ultimate long-term, 10- to 25-year goal for their companies, we see a lot of sloppy work — a random number or statement of aspiration with no real connection to a company's underlying strategy.

Microsoft's BHAG®

"When Paul Allen and I started Microsoft over 30 years ago, we had big dreams about software. We had dreams about the impact it could have. We talked about a computer on every desk and in every home. It's been amazing to see so much of that dream become a reality and touch so many lives. I never imagined what an incredible and important company would spring from those original ideas."

— Bill Gates at a news conference announcing plans for full-time philanthropy work and part-time Microsoft work, June 15, 2006, Redmond, Washington

Collins placed the BHAG® in the center of his Hedgehog Concept, noting that it must fully align with all the components of your strategy. It's why we've made it the seventh and final stratum. And we've discovered that the best unit of measure for the BHAG® is the X from the Profit per X.

NOTE: ***Your BHAG® should be measured in the same units as the X.*** *This is a key point. Since Southwest Airlines is focused on profit per plane, it made sense that the company set a long-term goal to have X number of planes in the air. The Profit per X and the BHAG® need to align very tightly.*

The BHAG® must also align with the Purpose of the company, as we explain in the chapter on the One-Page Strategic Plan. RedBalloon set an aggressive BHAG® to sell 2 million experiences in 10 years, a goal established in 2005, when it sold only 7,500. Simson, founder and CEO, reasoned that to truly change gifting in Australia forever (tapping people's desire for experiences vs. stuff), RedBalloon needed to touch the lives of 10% of Australians. At the time, there were 20 million Australians, so reaching 2 million experiences sold was the goal. It then made sense for RedBalloon's primary KPI to be profit per experience.

BuildDirect's business model is very different. It operates in the retail building-supply industry, where competitors focus on metrics like profit per square foot of retail space, profit per SKU, and same-store sales growth. Booth has built the company based on maximizing profit per "building product category." To reach Fortune 500 status by 2023, Booth has set a BHAG® to dominate just 20 of the more than 1,000 specific product categories (2% of all building categories — that's hyperspecialization). Figuring that each category represents $500 million to $2 billion in revenue, BuildDirect should reach $10 billion to $20 billion in revenue in just 20 short years since its launch, if it is not purchased in the meantime.

7 Strata Summary

BuildDirect's strategy can be stated simply, but there is nothing simple about it. If you're a "Debby the Do-It-Yourselfer" in North America (it's expanding internationally) and want laminate flooring, you'll find it easily via the search engines. Debby will likely find the promise of 40% to 50% savings an appealing value proposition, in light of the access she will get to the company's expertise and the ease of purchasing from the comfort of her home or office, with products delivered directly to the construction site.

And Debby has no fear of being sold something she doesn't want. If, for any reason, she doesn't want what was shipped, she has 30 days to send it back, and BuildDirect will pay the return shipping. How can Booth afford to offer this? BuildDirect has a secret One-PHRASE Strategy that makes it a lot of money. And though elements of its model are unpleasant for customers, the Brand Promises outweigh how the company goes about its business (e.g., if Debby wants this laminate flooring, she'll need to order at least a pallet of material; be willing to forgo the big brand names; and pay fully in advance).

BuildDirect doesn't mind that we share its strategy because its top-secret X-Factor, which took years to perfect, provides a 10x advantage over any competitor that might try to copy the rest of its strategy. That's why Booth figures that the company needs to dominate just 20 of more than 1,000 categories to reach Fortune 500 status. And to monitor its progress, BuildDirect focuses on maximizing its profit per building category, helping its leaders know when they've maxed out a category and need to exit it or add a new one.

The payoff is huge if you figure out all of the attributes of the 7 Strata. As with all of our tools, nail down what you can and keep moving. Set up your strategic thinking team, have each member read (and master) one of the referenced books or articles, and start testing your theories and honing your strategy to perfection. You'll know you're on the right track when sustained revenue growth and great margins start coming more easily.

It's very difficult work, and your strategic thinking team may feel both lost and outright dumbfounded in the beginning, but trust the process. Keep meeting each week and talking through the ideas, and answers will come to you. If you need help, Gazelles has some top-notch strategy consultants, with experience helping many companies work through these Strata, who can help you do some of the heavy lifting.

In the last chapter of the "Strategy" section, we'll take several decisions from the 7 Strata and integrate them into the OPSP: the one-page vision around which to align the entire company.

8

THE ONE-PAGE STRATEGIC PLAN

The Tool for Strategic Planning

EXECUTIVE SUMMARY: *The bigger your company, and the faster it's growing, the harder it is to keep everyone on the same page. The problem, of course, is that there isn't a single page around which to align. Instead, there are likely more than a dozen actual and imaginary ones, along with memos and emails, each purporting to describe your company's vision, values, strategies, goals, and priorities. Many of these messages may be riddled with unclear and even contradictory statements about your company's identity, what it does, and how it accomplishes this. This chapter will introduce you to the One-Page Strategic Plan (OPSP), updated since it was first introduced more than a decade ago and used by more than 40,000 companies worldwide. It's a simple yet powerful tool that helps you edit down your vision to a single, action-oriented page. We'll also introduce the SWT, a tool to augment the traditional SWOT analysis as you prepare your OPSP, along with a Vision Summary which provides a succinct way to communicate your vision.*

The One-Page Strategic Plan (OPSP) has been critical to the growth of JSJ Corporation, the Michigan-based parent company of six durable-goods firms. With 2,700 employees spread out around the world, the family-owned firm, which is approaching its 100th anniversary, began using the OPSP in 2006.

After hearing about the OPSP, Nelson Jacobson, the CEO of JSJ, sent the company's head of organizational development to a two-day "Mastering the Rockefeller Habits" workshop. Executives also spoke with leaders of a local company who were using it, to learn how the tool had helped them scale up and manage business performance.

"I had been the chief operating officer of JSJ since about 2000," recalls Jacobson, a member of the third generation of one of the founding families. "We went through the post-9/11 recession. At that point, it became a very different company. When I became the CEO in 2005, I was searching for a tool that would make us a more cohesive operating entity. The OPSP gave us a way of tracking and driving business performance."

Everyone on the Same Page

Confident that the OPSP could help JSJ grow cohesively, Jacobson introduced it to his seven-member leadership team. "I was looking for something to bring the company together," he recalls.

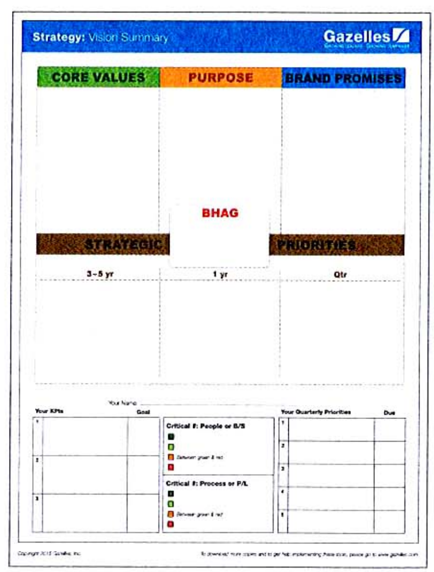
Each of JSJ's six companies has a different focus, so each creates and updates its own OPSP. These, in turn, influence JSJ's plan for the entire company. There is a rhythm to this: Each business typically develops its own plan in time for the company's Annual Operating Planning session in October. Over the next several months, the six companies' plans get finalized, so JSJ can utilize them to further shape its own plan. JSJ's plan, in turn, becomes final at a February board meeting.

Jacobson says the OPSP helped the leadership team make one of its toughest decisions: to sell one of its companies, a lithographic printing firm in California. "It helped us to evaluate which were the right businesses to hold," he recalls. "That one didn't fit." Fortunately, the parent sold it at a good time. "We used those funds to invest in and grow the remaining businesses," Jacobson says.

JSJ's efforts have taken commitment, but there's been a big, measurable payoff. The company has developed new technologies, launched additional product lines, and expanded geographically as a direct result of decisions it made while using the OPSP. "We've had continuously improving profit and growth since we started," says Jacobson. "The OPSP has brought better alignment, accountability, and execution."

In this chapter, we'll examine in detail the components of an effective OPSP, and how JSJ and tens of thousands of other firms have used it to drive engagement, alignment, and focus throughout their organizations. But first, we want to introduce a simplified version of the OPSP: the Vision Summary. Many companies can start with this and then progress to the more comprehensive OPSP as their sophistication in strategic planning increases.

Vision Summary



The Vision Summary provides a simplified OPSP framework for companies just getting started with implementing the Rockefeller Habits and for firms with 50 employees or fewer. For larger firms that are taking advantage of the more detailed aspects of the OPSP, the Vision Summary provides a one-page format to communicate key aspects of the company's vision to employees, customers, investors, and the broader community.

At *scalingup.com*, you can download a copy of the Vision Summary without the Gazelles logo in the upper right. Then list the following for your company:

- Core Values
- Purpose
- Brand Promises
- Big Hairy Audacious Goal (BHAG®)

We detailed these strategic components of the Vision Summary in the two previous chapters in this "Strategy" section. They represent the key components of the company's vision that every employee should know and understand thoroughly, making this summary useful as a key onboarding tool for new employees.

Under these components is a place to list the strategic priorities. In the first column, list the three- to five-year Key Thrusts/Capabilities from the OPSP. These are the handful of major medium-term priorities, which we will describe in more detail later.

In the middle column, list the year's #1 Priority and the Key Initiatives necessary to achieve it. And in the last column, list the quarter's #1 Priority and the "Rocks" required to reach this goal. We will provide more detail on how to set these priorities in "The Priority" chapter.

These strategic components and priorities provide a quick snapshot of the company's vision. Underneath them is a place for every employee or team to personalize the plan. There, they can list a handful of key performance indicators (KPIs), priorities, and a Critical Number for the quarter, which should support and align with the company's vision. These come from decisions made when completing the last column of the OPSP, and we detail them later in this chapter, as well.

We encourage team members to post this Vision Summary in their cubicles, their offices, or the cabs of their sanitation trucks as visual reminders of the organization's strategic plan and their part in making it a reality.

One-Page Strategic Plan (OPSP)

Many people have dreams. However, a vision is a dream with a plan: a One-Page Strategic Plan.

"A vision is a dream with a plan."

To flesh out the vision, you need to answer seven basic questions: *who, what, when, where, how, why*, and the often challenging question, "But *should* we or *shouldn't* we?" These questions anchor the seven columns of the OPSP. If you ever feel confused by the terminology that comes with strategic planning, always come back to these seven simple questions.

The terminology can be hard to follow. We are working to get our industry to align around a common language, agreeing on standard definitions of vision, purpose, values, priorities, etc. We are also using the OPSP to integrate the various visioning frameworks of thought leaders like Jim Collins, Gary Hamel, Jack Stack, and Stephen Covey, to name a few.

The tool is designed to align both horizontally and vertically, providing a logical framework to organize your strategic vision and guarantee that you have all the pieces to make it whole. The physical structure of the OPSP forces prioritization and simplicity. There's not a lot of space to write, so you must be concise.

As you fill in the document, think of it as a giant crossword or Sudoku puzzle. Figure out what you can, and let that help you determine the rest (e.g., Purpose and Brand Promise will triangulate back to the BHAG®). "Get it down; then get it right" is our mantra. A good plan now is better than a great plan too late.

"Get it down; then get it right."

There is one other important design element to the OPSP. Jim Collins discovered that enduring companies operate with a dual dynamic that he labeled "preserve the core/stimulate progress." This duality is built into the OPSP. The first three columns describe the core, which holds steady over time. The balance of the plan, as you move right, becomes more dynamic, stimulating progress to meet the trends, opportunities, and challenges of the marketplace.

To summarize, the OPSP process provides the organization with:

1. A **framework** that details your corporate vision.
2. A common **language** with which to express that vision.
3. A well-developed **routine** for keeping the vision current.

To get started with the OPSP, download an editable document, available in various languages from *scalingup.com*. If you print it out, place the first page to the left of the second page. This will give you a continuous single-page document on an 11-by-17-inch (A3) piece of paper. It will be helpful to have a physical copy as you read this chapter (a three-quarter-size copy appears at the front of the "Strategy" section). A sample completed plan can also be found at *scalingup.com*.

NOTE: *The OPSP is for internal consumption. It's designed to help a team get the technical aspects of the strategic plan correct vs. craft marketing messages (e.g., taglines). However, once you construct the plan, it will be faster and less costly, if you are using an outside marketing or ad agency, to create the external messaging to communicate your vision to employees, customers, and the broader community.*

OPSP Experiences: Holganix, Markitforce, and Towne Park

Barrett Ersek, co-founder of natural-lawn-care firm Holganix in Pennsylvania, has created five companies over 20 years, his first when he was 17 years old. He describes the OPSP and other strategic habits of this methodology as a blueprint for what he needs to do to grow his business. "When I was in my 20s, I was running a business with a checkbook in my back pocket, and then for the first time in my life, someone gave me an instruction booklet," he says.

For Alan Higgins of Australia-based Markitforce, a point-of-sale and warehouse fulfillment firm, the OPSP is an "automatic decision-making machine." The founder and chief engagement officer notes: "If there's ever a fork in the road or a decision to be made, we refer back to the tool to see if we're on strategy. If we're not, we chat about whether we should walk away from the opportunity."

The OPSP is one of the most valuable tools at 9,000-employee Towne Park, a hospitality services firm based in Maryland, according to founder Jerry South. "It allows me to think strategically about the business and compartmentalizes some of the big decisions we are wrestling with and breaks them down to bite-sized pieces," South says. "Plus, it creates the clarity needed around what's important in the business."

Let's walk through the seven columns of the OPSP:

Column 1 (Should/Shouldn't): Lists a handful of rules defining the boundaries for decision-making — the *Shoulds* or *Shouldn'ts* represented by the Core Values.

Column 2 (Why): Expresses the impact the company wants to make in the world (or neighborhood), providing the meaning — the *Why* — behind everyone's efforts. It requires two main decisions:

- **Purpose** (often referred to as "mission"): the aspirational North Star or Southern Cross providing direction to the business
- **BHAG® (Big Hairy Audacious Goal):** the measurable piece of the Purpose that the business can achieve in the next 10 to 25 years

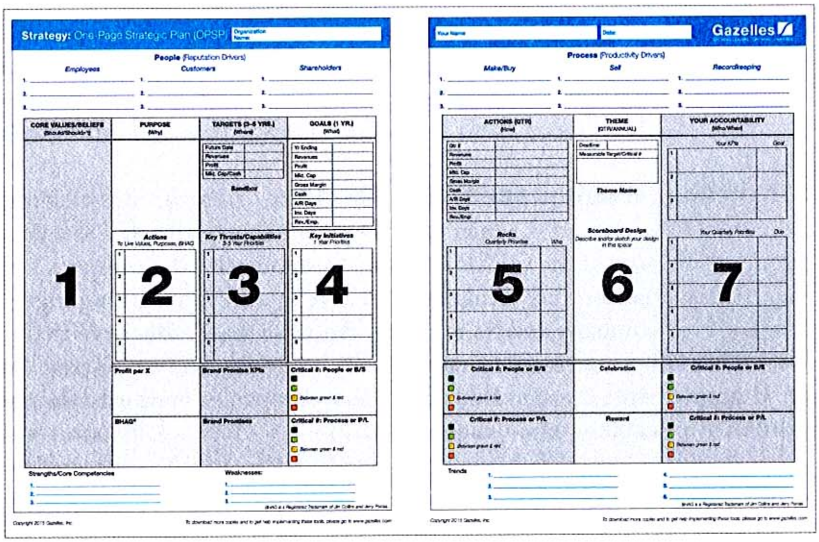
Column 3 (Where): Defines *Where* the company is headed in the next three to five years. Includes a description of the Sandbox in which the company wants to play (e.g., in terms of customers, geography, and product/service mix) and its measurable Brand Promises to those customers. It also summarizes a handful of major Capabilities and Key Thrusts the company must pursue.

Column 4 (What): Describes *What* results need to be achieved in the next 12 months. These are driven by a measurable #1 Priority (Critical Number) and a handful of "Rocks" (see Pages 132-133).

Column 5 (How): Details *How* the company plans to achieve its vision, focused on a measurable "next step" 90-day #1 Priority (Critical Number) and a handful of "Rocks."

Column 6 (Finish Lines and Fun): Describes the theme, celebration, and rewards associated with the #1 Priority for the quarter or year. The theme celebrations give everyone a definitive finish line and a chance to have some fun.

Column 7 (Who): Delineates *Who* is accountable for various aspects of the OPSP, detailing the KPIs, Rocks, and Critical Numbers for each employee or team. Last, the *When* question is represented by each column's time frame.



Filling In the OPSP

Alignment and clarity start at the very top of the OPSP with the Organization Name. Organizations must align around a name that customers and employees (including the receptionist answering the phones) can remember and say. Finding that everyone called the company FedEx, Federal Express changed its name. Minnesota Mining and Manufacturing worked for a while, but the corporation is 3M today. HVLS Fan Company, whose large industrial fans were designed to be high-volume and low-speed, adopted the name Big Ass Fans after years of having customers use that moniker instead. Today, the business — recently renamed Big Ass Solutions — is one of the most widely recognized, fastest-growing companies in its niche. Other companies have exceedingly long and complex names that include generic terms like "Group" or "Inc." which no one ever uses. Consider dropping those extra words.

The "Organization Name" line can be used to signify whether the strategic vision applies only to a division or department within a firm. At JSJ, each of the six companies will list its respective name (e.g., "Sparks, a JSJ Business").

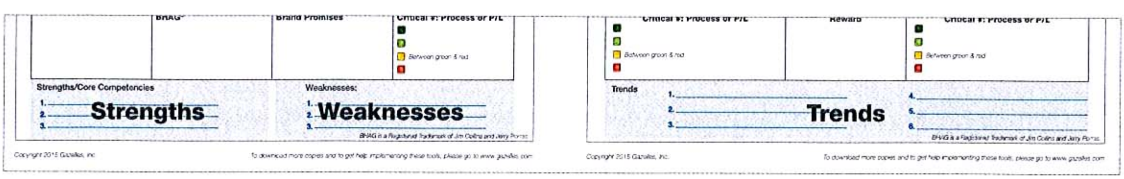
Finish the title area by adding your own name and the date. A few key points:

1. Some of you have names that are difficult to pronounce and spell. It might be best to simplify them, like many of our clients in Malaysia who go by their initials (hi, H.K. and C.K.!) or like my friend Nick Alexos, whose original name was Nicholas Alexopoulos. Or mimic performers and consider adopting a more memorable and business-friendly nickname (Gordon Sumner is known the world over as Sting).
2. To eliminate confusion over whether the month or day is listed first in the date, we suggest trying the global standard used by Cisco: the two-digit designation of the day, followed by the three-letter designation of the month, and then the four-digit designation of the year (e.g., 02 Feb 2022.)

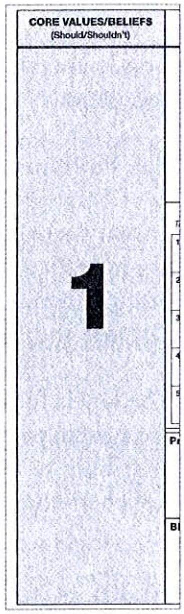
We hate to be so picky, but alignment starts with getting agreement on the organization's name, your name, and the format of the date.

Strengths, Weaknesses, and Trends

Along the bottom of the OPSP is a place to summarize the company's top three inherent Strengths/Core Competencies and Weaknesses. There is also room to highlight the top six trends that will likely hit the company and its industry like meteors. These serve as the foundation upon which the Vision is built. Later in this chapter, we'll introduce a new one-page SWT tool to help you fill this in. It supplements the age-old SWOT that companies have used for decades.



OPSP Column 1: Core Values/Beliefs



Moving up to the body of the form, list the firm's Core Values in the first column. These three to eight phrases broadly define the *shoulds* and *shouldn'ts* that govern your company's underlying decisions and describe the personality of the organization. "The Core" chapter discusses in more detail Core Values and how to use them to drive the people (HR) systems inside your company.

NOTE: *Do not feel compelled to call these concepts Core Values. Label them however you like: beliefs, rules, the HP Way. The key is to figure out what they are so your team can utilize them to keep the culture strong and drive decisions as the company scales.*

OPSP Column 2: Purpose, Profit per X, and BHAG®

If the first column represents the soul of the organization (or organism), then column 2 presents its heart. Column 2 answers some very basic *Why* questions: Why is this company doing what it's doing? What's its higher purpose? Why should I have passion for what we're doing?

It also provides a clue as to why certain seemingly small incidents send the founder into a tirade, while other situations, which may be bigger and more costly, slide by almost without comment. For example, Gazelles' Purpose revolves around the word "freedom." A situation that challenges our freedom, such as unnecessary bureaucracy, absolutely brings up the hair on the back of Verne's neck.

Find what rankles the CEO in your firm, and you'll have a leg up on figuring out your company's purpose. An example is Wal-Mart's purpose: "To give ordinary folks the chance to buy the same things as rich people." Sam Walton, founder of Wal-Mart, was bothered by the inequality between the rich and poor and had a passion for giving people in rural areas access to reasonably priced retail goods.

Again, "The Core" chapter provides more detail on how to determine the company's Purpose and how to use it to create a stump speech the leadership team can use to ignite employees' hearts.

Under the Purpose on the OPSP, you'll see an "Actions" section. It's easy for companies to create a list of Core Values, Purpose, and BHAG®, and then forget them. This "Actions" box is meant to drive a quarterly conversation about what's necessary, in the short run, to keep these long-term Vision items alive in the company and generate a handful of actions to bolster these core elements.

We had a client with a Core Value that emphasized the importance of having some "serious fun" as part of its culture. Having just gone public (which is no fun), the executive team decided at the next quarterly planning session to present the employees with a foosball table as a symbol that they didn't want to lose this fun aspect of the culture just because they were now part of a public company.

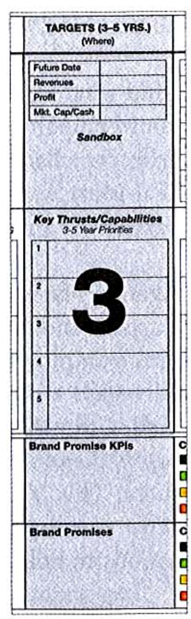
This is the kind of specific action item you would list under "Actions" in the Purpose column — specific ways to reinforce the Core Values, Purpose, and BHAG® in the next 90 days.

The Profit per X and BHAG® (Big Hairy Audacious Goal) were discussed in detail in "The 7 Strata of Strategy" chapter. To review, the Profit per X is a single KPI that represents the company's primary economic engine (e.g., the driving element of the business model). Southwest Airlines, for example, has a relentless focus on profit per airplane vs. other airlines' focus of profit per seat or profit per mile. The BHAG® represents the quantifiable 10- to 25-year target that aligns with the Purpose and Profit per X.

The key is for everything to align in column 2 and tell a compelling story that excites and engages the people to scale up the business. For a moving example, watch this five-minute 25th-anniversary tribute to Southwest Airlines' employees featuring then-President, CEO, and Chairman Herb Kelleher: *http://tiny.cc/Southwest-tribute*

OPSP Column 3: Targets, Sandbox, and Brand Promises

As we move to column 3, the plan becomes more detailed, listing specific financial targets and priorities over the next three to five years. These define the "camps" on the way to Everest (BHAG®), recalling the analogy shared in "The Overview."



The first decision is choosing whether to look ahead three, four, or five years. The key question to ask is, "In what time frame do we plan to double the revenue/size of the company?" If the plan is to grow at 15% per year, then you'll double in five years. If it's 25% per year, then choose a three-year time frame. If you're growing 100% per year, then your company is living in "dog years," when one year is like three to five for everyone else. In this case, choose a one-year time frame for column 3, a quarterly time frame for column 4, and a one-month time frame for column 5 (your month is like everyone else's quarter).

Since everything between the BHAG® and the next 90 days is a WAG (wild-ankle guess), the three- to five-year financial targets might as well be aspirational and aggressive. Specifically, looking at the top of column 3:

1. **Future Date:** Set the ending date for this medium-term planning period (e.g., 31 Dec 2019).
2. **Revenues:** Consider hitting a target revenue that's twice what it is today. Again, this is the definition of a camp on the way to your Everest: the point at which you're going to double the size of the business next.
3. **Profit:** Consider targeting three times industry average profitability. This is the definition of a great vs. good company, so go for it!

4. **Mkt. Cap/Cash:** If you lead a public company, set a goal for what the company will be worth (market cap). If you're at a private company, set a target for how much cash you would like to have in the bank or the market share you'd like to own within your industry.

Next, summarize the **Sandbox** in which the company plans to play over the next three to five years. This is a summary of Stratum 2 off the 7 Strata worksheet: a short description of the core customers *(Who and Where)* and *What* it is you plan to sell them.

Then jump to the bottom of the column and clearly articulate the key needs you're going to satisfy for this Sandbox: the measurable **Brand Promises**. Note these specific metrics in the **Brand Promise KPIs** (Kept Promise Indicators) box. Recall from the last chapter how Rackspace measured Fanatical Support in terms of answering customer calls within three rings. FedEx's promise of 10 a.m. delivery and Oracle's Exadata 5x promise are additional examples of Brand Promise KPIs.

Once you've decided on the financial targets, Sandbox, and Brand Promises, choose the three to five Key Thrusts/Capabilities the company must pursue over the next three to five years. These might include a number of important acquisitions or the launch of a new product or service line. They might also represent a dramatic refocus of the core business, like Steve Jobs' decision, when he became Apple's CEO in 1997, to pull it out of all of its current business lines and focus on producing just two desktops and two laptops.

For Gazelles, some earlier Key Thrusts/Capabilities included international expansion outside of the US and Canada; the launch of a software-as-a-service offering to support our methodologies; the creation of a high-end membership organization; a significant global expansion of our coaching organization; and the creation of an online learning platform.

These examples represent the kinds of significant medium-term priorities that a company should list in column 3 and are meant to provide a clear strategic direction for the next several years. To support the company's efforts, assemble a board of advisors. Recruit the smartest people you can find to advise you on each Key Thrust/Capability. It's always helpful to learn from those who have already been *Where* you're about to go.

OPSP Column 4: Goals

Moving to column 4, if you're going to get to your next camp, *What* are the #1 Priority and Key Initiatives for the company year — sometimes referred to as OKRs (Objectives and Key Results)? Addressing this starts with setting some very specific and expanded financial outcomes at the top of the column. Feel free to edit or add to the categories listed (e.g., some of you might not have significant inventory; tracking staff utilization instead might be more appropriate).

Next, jump to the bottom of the column and determine THE **Critical Number** for the year: "the main thing that will be the main thing." Yes, we recognize that your metrics are all critical, but this Critical Number designation is specific to one metric each year. "The Priority" chapter will walk you through this Critical Number decision for the year and for the next 90 days (columns 4 and 5) and

explain how to set Critical Number targets: Super Green, Green, and Red. Think of them as giving your team the chance to earn a gold, silver, or bronze medal this coming year.

In general, you'll pick a Critical Number that will address either an opportunity or a challenge on the **People/Balance Sheet** side of the business (e.g., reduce employee turnover, improve customer service scores, or dramatically reduce a credit line with the bank) or the **Process/Profit & Loss** side (e.g., improve gross margins, reduce production cycle time, or increase sales close ratios). And depending on which side you choose, you will want to pick a counterbalancing number from the other side to monitor (e.g., you want to improve relationships but don't want to give away the store, or you want to improve processes but not damage relationships along the way).

Last, move to the middle of the column and ask, "What are a handful of Key Initiatives we must complete this year to achieve our financial outcomes and hit our Critical Number?" Think of these initiatives as your corporate New Year's resolutions (Less is more) and plan to revise them each time you close the books on your fiscal year — or as the marketplace demands — while keeping an eye on the longer-term goals.

"Less is more."

These are NOT a random set of priorities. Choose them to achieve the Critical Number. Again, jump to "The Priority" chapter for more details.

OPSP Column 5: Actions

Column 5 mirrors column 4, only it details *How* you're going to contribute this quarter to accomplishing the one-year goals, driven by the Critical Number and Rocks for the next 90 days. Given this short time frame, management should have sufficient clarity and foresight to set financial outcomes precisely (at the top of the column) and a Critical Number (at the bottom of the column) that the company can achieve.

KEY: *The quarterly Critical Number represents a key step in achieving the annual Critical Number. For instance, Verne's brother-in-law worked for a company that set a specific cash target for the year. He then chose a Critical Number in process improvement for the quarter. The goal was to reduce the dollars spent on parts to repair machines, therefore saving significant money for his division and contributing to the cash goal.*

Last, choose a handful of Rocks* — priorities that must be accomplished to achieve the quarterly financial outcomes and Critical Number. Again, less is more. Finally, place the initials of the person accountable for each Rock in the small corresponding "Who" box.

Think of these Rocks as a series of three to five simultaneous 13-week sprints that provide focus and direction to the rest of the organization.

***Rocks:** This term honors the late Stephen R. Covey, author of *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change*. He would demonstrate how, if you have a limited amount of time (a bucket) and put in a bunch of pebbles first (email, distractions, etc.), there's not much room for the big important stuff (Rocks). But if you reverse the process — take care of the big things first — then there's room for all of it. To see an excellent demonstration of Covey's rock analogy, go to YouTube and search "Big Rocks in First" and watch the six-minute video with your team.

OPSP Column 6: Theme, Scoreboard Design, and Celebration/Reward

We will cover details for the Theme column, including some theme examples, in "The Priority" chapter. To give you a quick overview, the idea is to build a fun and memorable theme around the Critical Number from the Quarterly column. Specifically, starting at the top of the Theme column 6:

1. **Deadline:** Normally the end of the current quarter (e.g., 31 Mar 2015).
2. **Measurable Target:** The quarterly Critical Number from the bottom of column 5.
3. **Theme Name:** Brainstorm a fun and relevant title for the Quarterly Theme. Current movie or song titles work well (*Fast & Furious* is always popular). Or try a play on a common phrase, like The City Bin Co.'s "Life Begins at 40" (the goal: generate 40,000 euros more in monthly earnings).
4. **Scoreboard Design:** It can be a hand-drawn chart on the wall or a white-board, or a more elaborately printed or electronic version. You ultimately want something visible so everyone can see the score, which is updated daily or weekly.
5. **Celebration:** The Quarterly Theme gives you a reason to host an event to either celebrate the accomplishment of a big goal or commiserate. It can be as simple as a barbecue in the parking lot, or it can be a significant trip. It is even more fun if you pick a celebration destination that aligns with the theme (e.g., a "Fast & Furious" theme culminates in a go-carting experience).
6. **Reward:** This might be prizes that align with the theme, or it can include a monetary incentive.

The key is giving your team finish lines and an opportunity to have some fun together.

OPSP Column 7: Your Accountability

Once the vision has been set, sit down with each individual or team in the company to establish what they can do over the next quarter to help the organization succeed. This creates "line of sight," through which everyone is able to see how his or her daily actions link to the company's goals. In

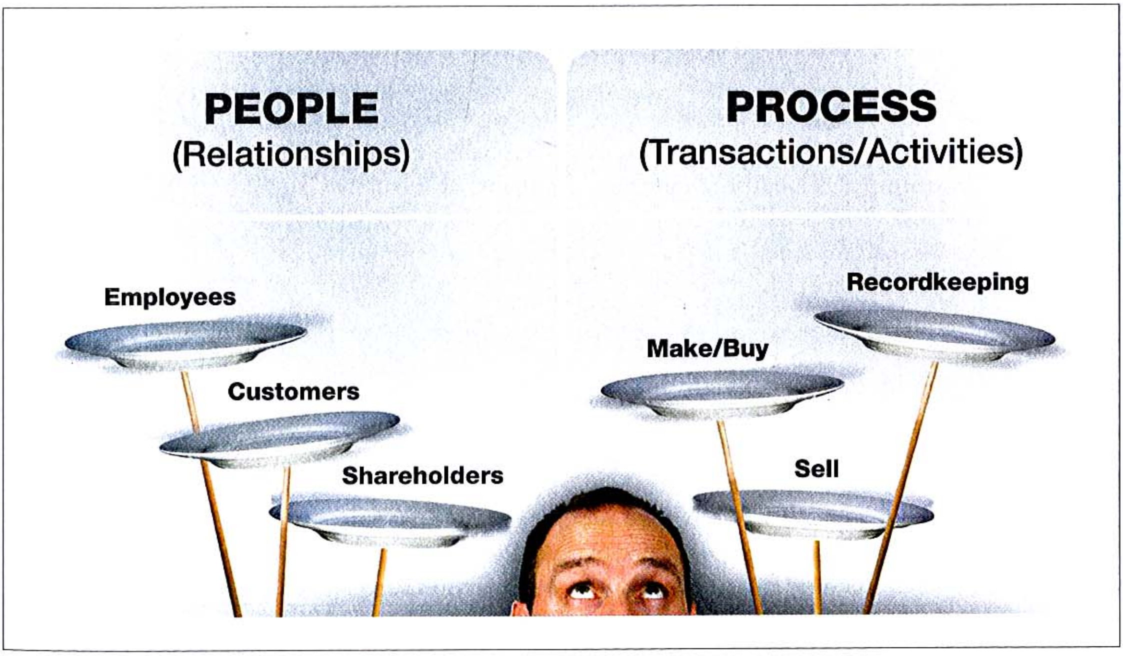
some cases, doing a great job so that others are free to focus on a special initiative might be sufficient. Specifically, look at:

1. **Your KPIs:** Every employee or team should have an ongoing KPI or two that enables them to quantifiably answer the question, "Did we have a productive day or week?"
2. **Your Quarterly Priorities:** In addition to an individual's ongoing work, what are a few priorities for the quarter that will raise his/her performance or drive a special project that aligns with the employee's Critical Number and the #1 Priority of the company?
3. **Critical Number:** What is the single most important quantifiable quarterly achievement for that person or team that will help the company achieve its vision?

One of the keys to keeping people engaged is making a connection between their day-to-day efforts and the goals and vision of the company. If everyone can accomplish one thing in addition to his or her daily job, that's a dozen improvements every quarter, or hundreds, depending on the number of employees.

People and Process (Reputation and Productivity)

To realize a vision, you need people doing stuff! Otherwise, the vision is just words on a piece of paper. These two main components — People and Process — are listed just above the main body of the OPSP.



On the left side, we have listed the three main groups of People involved in any business: employees, customers, and shareholders. The goal is to continually improve the company's Reputation with all three as you balance the potentially competing demands between each group.

On the right side, we have listed the three main Processes that drive any business: Make/Buy, Sell, and Recordkeeping. The goal is to continually improve the company's Productivity in all three as you balance the potentially opposing demands between each process.

The big challenge is balancing the competing demands among all six, like juggling spinning plates. You want to keep all the people happy (Reputation), but you can't give away the store (Productivity). You want to continually improve your Processes to drive better results, but you don't want to greatly upset any of the groups of People as you do so. Maintaining this balance between the demands of the People and Process sides of the business, as you scale up your Reputation and Productivity, requires frequent feedback and metrics to keep you from dropping any plates.

To complete the top portion of the OPSP, choose one or two KPIs you can track weekly to monitor the company's Reputation with all the stakeholders and the Productivity of the three main processes. Here are some suggestions:

Employees: Happiness and engagement scores (TINYpulse and Atlassian have simple systems for tracking these)

Customers: Kept Promise Indicators and Net Promoter System scores

Shareholders: Cash and company valuation

Make/Buy: Speed of processes (Lean), costs, and quality measurements

Sell: Close ratios, sales cycle, and revenue metrics

Recordkeeping: Relevance, speed, and accuracy of data

A Better Balance

The Balanced Scorecard™, popularized by Robert S. Kaplan and David P. Norton in their book by the same name, has been an industry-standard performance management tool for more than two decades. We align with Kaplan and Norton on the People side of the equation, emphasizing the need to balance the demands of employees, customers, and shareholders equally. Where we diverge is on the Process side. Kaplan and Norton lump all the processes into a single fourth category, whereas we break it into its three components: make/buy, sell, and recordkeeping. We believe this adds balance to the People side of the business. In the end, they balance four components, while we balance six.

Many nonaccountants struggle with understanding the basic functions and structures of a balance sheet and an income (profit & loss) statement. Considering the People and Process sides of the business from an accounting perspective often gives them a better grasp.

Let's look at the People side of the business. Track how the cash flows through the business with this equation:

Customers: Cash from anyone who pays you

minus (-)

Employees: Cash to anyone you pay ("employ"), such as traditional employees, contractors, suppliers, partners, etc.

equals (=)

Shareholders: What is left to pay back investors, banks, sweat equity, etc.

The balance sheet simply documents who owes you, whom you owe, and what is left over. It also notes how much cash you have. The goal is to generate sufficient cash to fuel growth as the company faces the First Law of Business Dynamics: Growth sucks cash!

"The First Law of Business Dynamics: Growth sucks cash!"

Now let's look at the Process side of the business. Track how the business generates profit through these factors:

Make/Buy: The processes that generate expenses

Sell: The processes that generate revenue

Recordkeeping: The processes for tracking all of these transactions

"The Second Law of Business Dynamics: Buy low, sell high!"

The profit & loss (P&L) statement simply documents the revenue and expenses and determines if there is a profit. The goal is to abide by the Second Law of Business Dynamics: Buy low, sell high!

What's sad is that companies unknowingly violate this fundamental every day. In "The Accounting" chapter, we'll discuss why the #2 weakness of growing companies is the lack of sufficient financial data. You need data detailing the profitability of every customer, product, service, salesperson, location, etc., so you can see where the business is making a profit and where it is not.

In the end, the financial goals of the company are to collect cash from customers fast enough to pay everyone it needs to employ and to reward the shareholders — and to sell things for more than they cost in order to generate a sufficient profit. Leaders must manage this balance between generating Cash and Profit, which mirrors the equilibrium between keeping the People happy and the Processes productive.

Preparing for a Strategic Planning Session

NOTE: *You can download a detailed bonus chapter on how to prepare for and run a strategic planning offsite, including a sample of a completed OPSP, from* scalingup.com.

To complete the OPSP, JSJ Corporation finds that surveys are valuable tools. When it comes time to do a SWOT analysis, JSJ goes straight to its customers for feedback that influences its planning decisions. And to make the right calls about talent development, the company surveys its employees for insight.

CEO Jacobson believes that giving his team a chance to step back from the business and get reinspired has been vital to its planning process. JSJ typically sends its leadership team and members of its business team to *Fortune's* Leadership Summit in the spring and its Growth Summit in the fall. JSJ's senior team arrives a day and a half early to do a deep dive into the OPSP and make updates. "It forces a discipline of getting away and taking the time to think deeply," says Jacobson.

To mirror JSJ's routine, there are four main activities in preparing for a strategic planning session (quarterly or annual):

1. Managers at all levels gather feedback from employees and customers.
2. Middle management completes a SWOT analysis and submits a Top 3 Priority list.
3. Senior leadership completes a SWT analysis and submits a Top 3 Priority list.
4. Everyone aims to keep learning and growing as a team.

Nothing can emerge from the collective brain of the team that doesn't enter it first. JSJ sparks its team's thinking through the reading and executive education delivered in Gazelles' book club and participation in *Fortune* magazine's Summits. It also taps into the many decades of experience that company employees have accumulated.

Employee and Customer Feedback

The first preparatory activity is to send out a short Start/Stop/Keep survey to all the employees:

1. What do you think [company name] should **start** doing?
2. What do you think [company name] should **stop** doing?
3. What do you think [company name] should **keep** doing?

These are broad enough to solicit responses ranging from "We need a new microwave in the break room" to "We need to start looking at robotics technology."

Ask the same three questions of your customers. It could be a random sample if you have thousands of retail customers; or it might be more appropriate to have account managers query business-to-business customers face-to-face or over the phone. Use your best judgment, but be sure to incorporate customer feedback into the process.

The weekly routine of collecting and reviewing ongoing feedback from customers and employees will also feed into the decisions made during the planning process. We will outline more details of these ongoing routines in "The Data" chapter.

SWT and SWOT

We've observed for decades how market-leading firms eventually fall behind start-ups because they are blinded by their current reality. This is what Harvard Business School professor Clayton M. Christensen labeled the "innovator's dilemma" (detailed in his book by the same name).

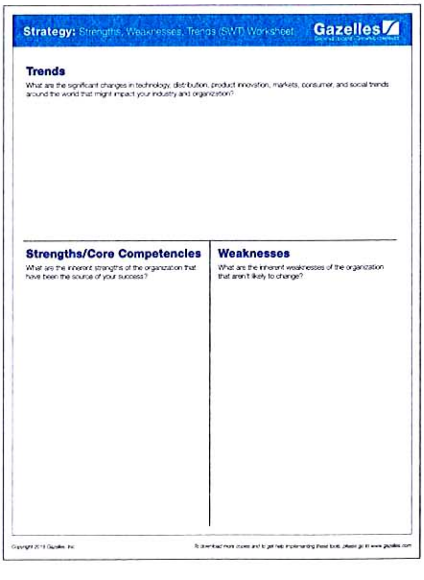
So why do leaders miss seeing sweeping global trends that are about to broadside them? We put a big part of the blame on the standard SWOT analysis. It's time to update this methodology.

Inside/Industry Myopia

Almost by definition, the SWOT process drives leaders to look inward at both their company and industry challenges, creating what we term "inside/industry myopia." The traditional SWOT analysis, while helping executives see the forest and the trees, tends to lead them to forget that there's a world outside the forest. The SWOT, with this introspective focus, isn't the right tool to spot the trends in other industries and distant markets that CEOs must factor into their plans.

We don't want to throw away the SWOT. It still has its place in the strategic planning process. It's an excellent tool for gathering ideas and input from middle managers, who are more internally focused and closer to the day-to-day operations of an organization.

SWT Instead


Strategy: Strengths, Weaknesses, Trends (SWT) Worksheet — Gazelles

Trends
What are the significant changes in technology, distribution, product innovation, markets, consumer, and social trends around the world that might impact your industry and organization?

Strengths/Core Competencies
What are the inherent strengths of the organization that have been the source of your success?

Weaknesses
What are the inherent weaknesses of the organization that aren't likely to change?

For senior leaders, we propose replacing the SWOT with the SWT: an updated approach that identifies inherent *Strengths* and *Weaknesses* within their firms while exploring broader external *Trends* beyond their own industry or geography.

As we've mentioned several times, the *strategic planning* process comprises two distinct activities: *strategic* thinking and execution *planning*. Strategic thinking is coming up with a few big-picture ideas. Execution planning is figuring out how to make them happen.

The traditional SWOT is a great tool for execution planning — the focus of middle management — resulting in a laundry list of accolades and fixes. However, for the senior team, the SWOT can be a trap. It tends to pull executives down into operational issues, distracting them from the much bigger forces around the globe that can take the company by surprise if it is not prepared.

Therefore, to anchor strategic thinking, senior leaders need to complete the SWT. It will help them face the brutal facts about the company's inherent strengths and weaknesses, and the global trends threatening to wash over their industry.

Let's look at the components of the SWT.

Trends

In addition to sizing up the immediate opportunities and threats that the SWOT tends to surface, the senior team needs to rise above all of this. Leaders should look at major trends, such as significant changes in technology, distribution, product innovation, markets, and consumer and social developments around the world that might shake up not only the business but the entire industry.

Forget about the competitor down the street. Is there a company on the other side of the globe that might put you out of business? Is there a new technology coming onto the start-up scene that could lead to an overnight change in the way all companies must do business? How is robotics changing the very nature of work? These are the kinds of questions the strategic thinking team must explore.

Choose four to six trends most likely to shake up your industry and business, and list them on the bottom of the OPSP. Recalling Jim Collins' dual dynamic, mentioned earlier, these trends are meant to anchor the "stimulate progress" right side of the OPSP.

Inherent Strengths and Weaknesses

Like an individual, an organization has innate strengths and weaknesses. Coping with them is less about changing them and more about playing the hand the organization was dealt.

For instance, Verne led the five-year strategic planning process for Benjamin Franklin International School (BFIS), which his children attend. It will always lack a large corporate or government base from which to draw funds. Students are situated in Barcelona vs. Madrid, an *inherent weakness* not easily changed by the school.

In turn, an *inherent strength* for the school is its fashionable location. This has continually driven enrollment from the families of Silicon Valley entrepreneurs, helping BFIS thrive during one of the worst economic periods in Spain's history.

Like the trends, this handful of inherent strengths (core competencies) and weaknesses needs to be determined and listed on the bottom of the OPSP. Given their relative permanence, they anchor the "preserve the core" side of the OPSP, on the left.

Mining All Levels

In summary, to feed the strategic planning process properly, the key is using different techniques to mine ideas from all levels of the organization. With frontline employees and customers, ask the Start/Stop/Keep questions. With middle management, require a standard SWOT and inquire about their top three priorities for the quarter or year.

And demand that the senior team go deeper and broader using the SWT. Knowing what trends are going to shake up your industry — and having a plan for dealing with them — will help you stay ahead of the competition, and sniff out new rivals who want to take over your turf while you can still do something about it. At Amazon, one of the questions founder Jeff Bezos asks his team each week is what competitors have entered their market in the last seven days!

Again, go to *scalingup.com* to download a more comprehensive, step-by-step guide for preparing and running a strategic planning process, along with a sample OPSP.

SCALING UP
EXECUTION

THE EXECUTION INTRODUCTION

KEY QUESTION: *Are all processes running without drama and driving industry-leading profitability?*

In the largest investment in an e-commerce company in Canadian history, Coastal.com, a Vancouver-based eyewear company, was purchased in 2014 by Essilor International, one of the world's largest lens manufacturers, for CAD$430 million. Roger Hardy, Coastal.com's founder and CEO, credits the disciplined execution of the Rockefeller Habits with these stellar results.

Case in point: Some German industrialists sat in on Coastal.com's daily executive team huddle while the company's leaders stood up and reported on their Critical Numbers. The executives discussed quickly their key opportunities, issues, highlights, problems, and threats. "They were blown away with our operational efficiencies and knowledge of the business," Hardy noted.

Hardy's team also introduced the Net Promoter System (NPS) to measure how likely customers were to recommend the business to others and to single out a few (from over 2 million) who indicated they were not raving fans, so the senior team could call them. These weekly conversations with customers, debriefed at the weekly huddle, gave Hardy and his leadership team the kind of gut feel for the market that drives ongoing improvements. One change, which we'll share in "The Data" chapter, caused revenue to jump 60% in one market. More recently, Coastal.com tapped into the innovative ideas of its employees in its own *Shark Tank* type of competition. Implementing those ideas generated another 15% lift for Coastal.com's revenue in 2013.

Coastal.com excels at execution precisely because it listens to customers and employees; has a meeting rhythm to discuss and implement quickly what's being learned; and relies on a process for setting priorities based on all this input. This excellence in execution continues to wow customers, engage employees, and deliver stunning financial results for the shareholders.

At the end of this Introduction is the Rockefeller Habits Checklist™. Take a few minutes to go through it. Don't worry if you don't have many items checked. Neither did Hardy's executives when they attended their first Rockefeller Habits workshop. "It gave me a blueprint on how to run a team in a successful way and is a key part of why we have achieved $200 million in sales while keeping everyone aligned and heading in the same direction," says Hardy.

Hardy advises CEOs to review the Checklist every three months. "You're not going to get it perfect every quarter," he says. "It's a work in progress. It forces you, though, to be objective and to realize there are blind spots. Like a pilot taking off, you don't want to forget to lift the landing gear. It may be the things you take for granted that can hurt you the most. A Checklist is a good way of reminding you what's missing."

Jim Collins and Morten T. Hansen, in their book *Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All,* note: "Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline." We couldn't agree more, and hope you'll consciously choose to implement the 10 Rockefeller Habits detailed in this section.

Section Overview

This section is structured around the 10 Rockefeller Habits, divided into three disciplines (routines) fundamental to execution:

1. **Priorities:** Less is more in driving focus and alignment.
2. **Data:** Qualitative and quantitative feedback provides clarity and foresight.
3. **Meeting Rhythm:** Give yourself the time to make better/faster decisions.

The first chapter, The Priority, highlights Rockefeller Habits #1 and #2, emphasizing the importance of having a "healthy team" that is able to face the brutal facts and support the kind of constructive debate necessary to set a main priority that everyone can support. This chapter also reviews important routines centered around Rockefeller Habits #4, #7, and #8 that were covered in earlier chapters.

The second chapter, The Data, highlights Rockefeller Habits #5, #6, #9, and #10, and the importance of gathering both quantitative and qualitative data to properly fuel decision-making. It's particularly critical for the senior leadership team and middle managers to engage in weekly conversations with customers and employees (and to shop competitors).

The third chapter, The Meeting Rhythm, highlights Rockefeller Habit #3 — the importance of setting a routine of daily, weekly, monthly, quarterly, and annual meetings to address the communication challenges that exist whenever you get a group of people together. These structured meetings also create the space and time for teams to debate and make the important decisions driving the scaling up of the organization.

Two one-page Execution tools will be covered in this section:

1. **Rockefeller Habits Checklist™:** 10 routines for driving relentless repeatability in your execution
2. **Who, What, When (WWW):** Quick summary of actions and accountabilities — the only "notes" you need to keep from a meeting of an hour or longer

A special thank-you to Kevin Lawrence, Gazelles International Certified Coach partner in Vancouver, for contributing to this "Execution" section and serving as an early collaborator on the book.

Execution: Rockefeller Habits Checklist™

Gazelles
GROWING LEADERS - GROWING COMPANIES

1. The executive team is healthy and aligned.

- ☐ Team members understand each other's differences, priorities, and styles.
- ☐ The team meets frequently (weekly is best) for strategic thinking.
- ☐ The team participates in ongoing executive education (monthly recommended).
- ☐ The team is able to engage in constructive debates and all members feel comfortable participating.

2. Everyone is aligned with the #1 thing that needs to be accomplished this quarter to move the company forward.

- ☐ The Critical Number is identified to move the company ahead this quarter.
- ☐ 3-5 Priorities (Rocks) that support the Critical Number are identified and ranked for the quarter.
- ☐ A Quarterly Theme and Celebration/Reward are announced to all employees that bring the Critical Number to life.
- ☐ Quarterly Theme/Critical Number posted throughout the company and employees are aware of the progress each week.

3. Communication rhythm is established and information moves through organization accurately and quickly.

- ☐ All employees are in a daily huddle that lasts less than 15 minutes.
- ☐ All teams have a weekly meeting.
- ☐ The executive and middle managers meet for a day of learning, resolving big issues, and DNA transfer each month.
- ☐ Quarterly and annually, the executive and middle managers meet offsite to work on the 4 Decisions.

4. Every facet of the organization has a person assigned with accountability for ensuring goals are met.

- ☐ The Function Accountability Chart (FACe) is completed (right people, doing the right things, right).
- ☐ Financial statements have a person assigned to each line item.
- ☐ Each of the 4-9 processes on the Process Accountability Chart (PACe) has someone that is accountable for them.
- ☐ Each 3-5 year Key Thrust/Capability has a corresponding expert on the Advisory Board if internal expertise doesn't exist.

5. Ongoing employee input is collected to identify obstacles and opportunities.

- ☐ All executives (and middle managers) have a Start/Stop/Keep conversation with at least one employee weekly.
- ☐ The insights from employee conversations are shared at the weekly executive team meeting.
- ☐ Employee input about obstacles and opportunities is being collected weekly.
- ☐ A mid-management team is responsible for the process of closing the loop on all obstacles and opportunities.

6. Reporting and analysis of customer feedback data is as frequent and accurate as financial data.

- ☐ All executives (and middle managers) have a 4Q conversation with at least one end user weekly.
- ☐ The insights from customer conversations are shared at the weekly executive team meeting.
- ☐ All employees are involved in collecting customer data.
- ☐ A mid-management team is responsible for the process of closing the loop on all customer feedback.

7. Core Values and Purpose are "alive" in the organization.

- ☐ Core Values are discovered, Purpose is articulated, and both are known by all employees.
- ☐ All executives and middle managers refer back to the Core Values and Purpose when giving praise or reprimands.
- ☐ HR processes and activities align with the Core Values and Purpose (hiring, orientation, appraisal, recognition, etc.).
- ☐ Actions are identified and implemented each quarter to strengthen the Core Values and Purpose in the organization.

8. Employees can articulate the following key components of the company's strategy accurately.

- ☐ Big Hairy Audacious Goal (BHAG) – Progress is tracked and visible.
- ☐ Core Customer(s) – Their profile in 25 words or less.
- ☐ 3 Brand Promises – And the corresponding Brand Promise KPIs reported on weekly.
- ☐ Elevator Pitch – A compelling response to the question "What does your company do?"

9. All employees can answer quantitatively whether they had a good day or week (Column 7 of the One-Page Strategic Plan).

- ☐ 1 or 2 Key Performance Indicators (KPIs) are reported on weekly for each role/person.
- ☐ Each employee has 1 Critical Number that aligns with the company's Critical Number for the quarter (clear line of sight).
- ☐ Each individual/team has 3-5 Quarterly Priorities/Rocks that align with those of the company.
- ☐ All executives and middle managers have a coach (or peer coach) holding them accountable to behavior changes.

10. The company's plans and performance are visible to everyone.

- ☐ A "situation room" is established for weekly meetings (physical or virtual).
- ☐ Core Values, Purpose and Priorities are posted throughout the company.
- ☐ Scoreboards are up everywhere displaying current progress on KPIs and Critical Numbers.
- ☐ There is a system in place for tracking and managing the cascading Priorities and KPIs.

Execution: Who • What • When (WWW)

Gazelles
GROWING LEADERS - GROWING COMPANIES

Who	What	When

9

THE PRIORITY
Focus, Finish Lines, and Fun

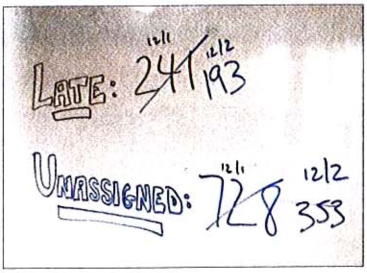
EXECUTIVE SUMMARY: *"The main thing is to keep the main thing the main thing," noted the late Stephen R. Covey, author of* The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change. *Individuals or organizations with too many priorities have no priorities and risk spinning their wheels and accomplishing nothing of significance. In turn, laser-focusing everyone on a single priority — today, this week, this quarter, this year, and the next decade — creates clarity and power throughout the organization. In this chapter, we'll press hard for you and your company to stay focused. We'll show you how to wrap a memorable theme around your priority; achieve it — or at least make substantial progress toward it — by a specific due date; and host a celebration with rewards to provide the requisite finish lines and fun, pumping up the energy and engagement of the team members as they achieve something significant together.*

Gene Browne didn't know how to drive a garbage truck when he started a waste collection company, The City Bin Co., in Galway, Ireland, in 1997—and he still doesn't. In fact, he thinks this is one of the keys to success in his business.

By staying out of his trucks and focusing on steering the company instead, he has scaled the profitable business to $25 million in annual revenue and 120 employees in 2014, up from 80 in 2013. The City Bin Co. is now working toward a Big Hairy Audacious Goal™ of serving 1 million customers by 2020. This is its long-term "main thing."

In 2011, it became clear to CEO Mark Zuckerberg that "Facebook's first priority needed to be figuring out a wireless strategy," noted a 2013 article in *Fortune* magazine. Jessi Hempel, senior writer, explained: "He was maniacal about it. In December 2011 he reorganized the company to embed mobile engineers in all product teams. In June 2012 he began Facebook's annual all-hands meeting by explaining that the company's most pressing priority was to become a mobile company." Every acquisition, hiring decision, and software development project was focused on one thing for the next 18 months: to go mobile. And in April of 2013, Facebook did. It achieved mobile ad revenue that exceeded all expectations in the next six months, reaching 50% of total revenue in the fourth quarter of 2013. It was an amazing pivot that saved the company. This was Facebook's medium-term "main thing."

Toward the end of 2010, Ignite Social Media President Jim Tobin had a "rock in his shoe." His 28-member team wasn't using its newly installed project-management system. With a month left in the year, he wrote on a whiteboard in the break room, "Late: 241; Unassigned: 728" and dated each metric "12/1." After sending out a short email to his team focusing everyone on getting both metrics to zero by 12/31, he was blown away to find that within 24 hours, late tasks had dropped by 25%, to



193, and unassigned tasks by over half, to 353. By the end of the month, both were at zero. The team was now ready for 2011. This was the short-term "main thing" at Ignite, which has since grown to 110 employees.

Decades ago, Charles Schwab, CEO of Bethlehem Steel, asked management consultant Ivy Lee to show him how to get more done. As the famous story goes, Lee asked Schwab to write down and prioritize his six most important tasks to complete the next business day. Then he instructed Schwab to start on item #1 the next day and not move on to item #2 until item #1 was completed. "Don't be concerned if you've only finished two or three, or even one, by quitting time. You'll be working on the most important ones, and the others can wait." Lee encouraged Schwab to share this approach with his executives, judge the value, and "send me a check for whatever you think it's worth." Two weeks later, Lee received a check for $25,000 — a king's ransom in those days — and an accompanying note in which Schwab said it was the most profitable lesson he'd ever learned. This priority list was Schwab's daily "main thing."

As the above examples demonstrate, priority-setting is as applicable today as it was 100 years ago, and as critical in the short run as in the long term. As Confucius said, "He who chases two rabbits catches neither." The key is sequencing a series of #1 priorities that keep everyone focused and heading in the same general direction together.

Throughout the book, we have emphasized setting priorities (that includes deciding which of the 4 Decisions to focus on first and which box on the FACe chart needs to be updated next). On the One-Page Strategic Plan (OPSP), there is a progression of #1 priorities:

1. Core Purpose: the **one** word/idea/speech driving the business
2. BHAG®: the **one** 10- to 25-year goal for the company
3. Profit per X: the **one** overarching KPI representing the core economic engine of the enterprise
4. Brand Promise: the **one** most important measurable promise (of three) representing the brand
5. The Critical Number: the **one** key driver for the year and the quarter

And in chapter on "The Meeting Rhythm," we'll continue this focus on priorities, imploring the team to pick one key topic to discuss/solve at the weekly meeting and one big issue/opportunity to address at the monthly management meeting. Again, it's just a matter of sequencing these initiatives so they align and build upon each other. This way, you can tackle the hundreds of decisions and activities that need to be addressed without overwhelming and defocusing the team. As the well-known analogy suggests, you can only eat an elephant one bite at a time. The same is true with scaling up a business.

Rockefeller Habits Checklist™

Throughout this "Execution" section, we'll cover the 10 routines listed on the Rockefeller Habits Checklist™. Flip back to "The Execution: Introduction" and take a few minutes to review the list, placing a checkmark next to each routine you feel is present (even if not perfect) in your organization. Or download a copy of the Rockefeller Habits Checklist™ at *scalingup.com* and mark it up, if you prefer.

Managers who've completed the checklist often ask us two questions:

1. How did we survive/thrive for all these years and yet have nothing checked off on the list?
2. Are the habits in any kind of order?

Responding to the first question, we remind executive teams that this is an execution checklist. It's not necessary to implement any of these habits to build a long-lasting organization. It just means you've been leaving massive amounts of money and time on the table. And if you have a killer strategy and/or heroic people willing to work 18-hour days, eight days a week, these will make up for the messes created by sloppy execution and lack of discipline.

To answer the second question, you can't implement any of what we've taught in this book unless Rockefeller Habit #1 — "The executive team is healthy and aligned" — exists. The order in which you implement the other habits doesn't matter. Choose just one or two each quarter, based on what will give you the most immediate benefit, as you would with the rest of our crossword puzzle-like tools. Over 24 to 36 months, you'll have moved through all 10 habits.


Execution: Rockefeller Habits Checklist™ Gazelles

1. The executive team is healthy and aligned.
- ☐ Team members understand each other's differences, priorities, and styles.
- ☐ The team meets frequently (weekly is best) for strategic thinking.
- ☐ The team participates in ongoing executive education (monthly recommended).
- ☐ The team is able to engage in constructive debates and all members feel comfortable participating.

2. Everyone is aligned with the #1 thing that needs to be accomplished this quarter to move the company forward.
- ☐ The Critical Number is identified to move the company ahead this quarter.
- ☐ 3-5 Priorities (Rocks) that support the Critical Number are identified and ranked for the quarter.
- ☐ A Quarterly Theme and Celebration/Reward are announced to all employees that bring the Critical Number to life.
- ☐ Quarterly Theme/Critical Number posted throughout the company and employees are aware of the progress each week.

3. Communication rhythm is established and information moves through organization accurately and quickly.
- ☐ All employees are in a daily huddle that lasts less than 15 minutes.
- ☐ All teams have a weekly meeting.
- ☐ The executive and middle managers meet for a day of learning, resolving big issues, and DNA transfer each month.
- ☐ Quarterly and annually, the executive and middle managers meet offsite to work on the 4 Decisions.

4. Every facet of the organization has a person assigned with accountability for ensuring goals are met.
- ☐ The Function Accountability Chart (FACe) is completed (right people, doing the right things, right).
- ☐ Financial statements have a person assigned to each line item.
- ☐ Each of the 4-9 processes on the Process Accountability Chart (PACe) has someone that is accountable for them.
- ☐ Each 3-5 year Key Thrust/Capability has a corresponding expert on the Advisory Board if internal expertise doesn't exist.

5. Ongoing employee input is collected to identify obstacles and opportunities.
- ☐ All executives (and middle managers) have a Start/Stop/Keep conversation with at least one employee weekly.
- ☐ The insights from employee conversations are shared at the weekly executive team meeting.
- ☐ Employee input about obstacles and opportunities is being collected weekly.
- ☐ A mid management team is responsible for the process of closing the loop on all obstacles and opportunities.

6. Reporting and analysis of customer feedback data is as frequent and accurate as financial data.
- ☐ All executives (and middle managers) have a 4Q conversation with at least one end user weekly.
- ☐ The insights from customer conversations are shared at the weekly executive team meeting.
- ☐ All employees are involved in collecting customer data.
- ☐ A mid-management team is responsible for the process of closing the loop on all customer feedback.

7. Core Values and Purpose are "alive" in the organization.
- ☐ Core Values are discovered, Purpose is articulated, and both are known by all employees.
- ☐ All executives and middle managers refer back to the Core Values and Purpose when giving praise or reprimands.
- ☐ HR processes and activities align with the Core Values and Purpose (hiring, orientation, appraisal, recognition, etc.)
- ☐ Actions are identified and implemented each quarter to strengthen the Core Values and Purpose in the organization.

8. Employees can articulate the following key components of the company's strategy accurately.
- ☐ Big Hairy Audacious Goal (BHAG) - Progress is tracked and visible.
- ☐ Core Customer(s) - Their profile in 25 words or less.
- ☐ 3 Brand Promises - And the corresponding Brand Promise KPIs reported on weekly.
- ☐ Elevator Pitch - A compelling response to the question "What does your company do?"

9. All employees can answer quantitatively whether they had a good day or week (Column 7 of the One-Page Strategic Plan).
- ☐ 1 or 2 Key Performance Indicators (KPIs) are reported on weekly for each role/person.
- ☐ Each employee has 1 Critical Number that aligns with the company's Critical Number for the quarter (clear line of sight).
- ☐ Each individual/team has 3-5 Quarterly Priorities/Rocks that align with those of the company.
- ☐ All executives and middle managers have a coach (or peer coach) holding them accountable to behavior changes.

10. The company's plans and performance are visible to everyone.
- ☐ A "situation room" is established for weekly meetings (physical or virtual).
- ☐ Core Values, Purpose and Priorities are posted throughout the company.
- ☐ Scoreboards are up everywhere displaying current progress on KPIs and Critical Numbers.
- ☐ There is a system in place for tracking and managing the cascading Priorities and KPIs.

Copyright 2015 Gazelles, Inc. To download more copies and to get help implementing these tools, please go to www.gazelles.com

Rockefeller Habit #1 — Healthy Team

1. The executive team is healthy and aligned.
- ☐ Team members understand each other's differences, priorities, and styles.
- ☐ The team meets frequently (weekly is best) for strategic thinking.
- ☐ The team participates in ongoing executive education (monthly recommended).
- ☐ The team is able to engage in constructive debates and all members feel comfortable participating.

Patrick M. Lencioni's best-selling book *The Five Dysfunctions of a Team: A Leadership Fable* defines the unhealthy situations that can derail your leadership team: an absence of trust, fear of conflict, lack of commitment, avoidance of accountability, and inattention to results. If one or more of these afflictions exist, address it before you tackle any other aspect of execution. We strongly suggest purchasing Lencioni's affordable "Team Kit." Take your leadership team through his assessment and training process to strengthen the levels of trust, healthy debate, commitment, accountability, and results. It's a great tune-up for even healthy teams. At a minimum, require all leaders and managers to read his book once a year. It's a quick read, and doing a refresher can prevent new problems from arising within the team as you scale up.

Many of the Rockefeller Habits reinforce routines that keep the team healthy, like taking a few minutes to share personal and professional good news at the start of a weekly or monthly meeting (discussed in "The Meeting Rhythm" chapter). Other ways to help the team build trust:

- Personality and leadership style assessments, which help team members appreciate each other's differences
- Meal and social time during offsite planning sessions and monthly management meetings
- Shared learning experiences

"The #1 habit is the most important and first."

Once the team is healthy, then it is ready to tackle the tough work of setting priorities successfully.

Rockefeller Habit #2 — The #1 Priority

2. Everyone is aligned with the #1 thing that needs to be accomplished this quarter to move the company forward.

- ☐ The Critical Number is identified to move the company ahead this quarter.
- ☐ 3-5 Priorities (Rocks) that support the Critical Number are identified and ranked for the quarter.
- ☐ A Quarterly Theme and Celebration/Reward are announced to all employees that bring the Critical Number to life.
- ☐ Quarterly Theme/Critical Number posted throughout the company and employees are aware of the progress each week.

To simplify our methodology, there are two main vision decisions: the BHAG® (Everest) and the measurable next step (one with a 90-day to one-year focus). Everything else in between is just a WAG — a wild-ankle guess. The BHAG®, derived from your strategy, is the main long-term priority anchoring the *strategic thinking* in the vision. The quarterly or annual Critical Number is the main short-term priority anchoring the *execution planning* side.

Rockefeller Habit #2 starts with identifying this Critical Number, introduced and popularized through Jack Stack's classic book *The Great Game of Business: The Only Sensible Way to Run a Company.* Though all your metrics are critical, reserve the term "Critical Number" for your measurable #1 priority, even when other metrics are nearly as important.

To derive the one Critical Number, imagine the hundreds of important things you need to accomplish lined up like dominoes. Find the lead domino: the one initiative that, when pursued, makes it easier to accomplish everything else. Or identify the constraint — the choke point or bottleneck — and address it first. For more on how to choose this "critical" constraint, read my favorite biz book of all time titled *The Goal* by the late Eli Goldratt. Scaling up is all about eliminating constraints — in the business and for customers.

At ProService Hawaii, a human resources firm based in Honolulu, President Ben Godsey determined that in the 2014 fiscal year, his Critical Number was getting 600 referrals. This was a major stretch goal. The company, which has $120 million in annual sales, had previously averaged fewer than 200 referrals a year, despite its focus on developing a great service culture and innovative products — indicated by a Net Promoter Score (NPS) consistently above 70% (on par with Apple).

After Godsey's team talked about how great it would be to get more referrals from satisfied clients, the company created an annual theme around the plan. It set that stretch goal: getting 600 leads from clients in 12 months, three times more than it had ever achieved. And sure enough, the company accomplished this with a couple of weeks to spare— and the entire team celebrated with a trip to Waikoloa Beach.

In addition to tripling leads, this single focused and measurable priority helped to knock over a bunch of other dominoes. "We've now made referrals, by far, the biggest driver of our growth — which shows quality and value to clients — through achieving a goal we thought was pretty far-fetched," says Godsey. "More important, the focus on referrals has become embedded in our culture, reinforcing our service ethic." Clients and staff understand that as the company grows, getting more referrals helps the firm invest in improving its services and products, and brings new projects that are good for staff development. "We call that the virtuous cycle of growth," Godsey says.

So, what is the most important and measurable choke point you need to fix/control in your business this coming year? Figure it out. Then give your team a chance to win gold, silver, or bronze rewards (Super Green, Green, or Red at the bottom of column 4 of the OPSP). ProService Hawaii normally has a three-tiered set of goals in its themes. However, in upping its game in lead generation, "we did not have Red and Green goals this time," notes Godsey. "We set one high bar [Super Green]; the Critical Number of hitting 600 referrals. It was like going to the moon and back: Either we were going to do it, by all working together toward this singular goal [like Apollo 13], or die trying."

Godsey's team is experienced in using themes and therefore was ready for this all-or-nothing challenge. For those new to this routine, give your team some wiggle room in the beginning by setting a three-tiered target. Using the ProService example, we might recommend setting 200 leads as the minimum target (Red), with the reward being a party in the company's parking lot; 400 leads as the goal (Green), with the reward a local beach party; and 600 leads as the stretch goal (Super Green), with a company trip to Waikoloa Beach.

Quarterly Themes

The Quarterly Theme is a fun motif you can use in your internal marketing to rally everyone around achieving your Critical Number.

NOTE: *Especially for those new to the process, we encourage teams to start with a few initial themes that last no longer than a quarter. It takes several quarters to master choosing and setting Critical Numbers.*

Gene Browne thought he had tapped into the ideas covered in *Mastering the Rockefeller Habits* as he grew The City Bin Co., but with Ireland's economy hit hard by the global economic crisis, he decided he needed to dig deeper into the habits in 2009. "Ireland was in a deep recession," he recalls. "I thought we needed to do something new. We needed to get out of the quagmire."

That year, he flew his leadership team to Orlando, Florida, for a two-day "Mastering the Rockefeller Habits" workshop. There, he realized that he hadn't been focusing enough on using Quarterly Themes to align his company's employees as their numbers grew. "It was stuff we thought we were doing, but weren't, really," Browne says.

When Browne and his team returned to Ireland, they decided to put the Quarterly Themes front and center. Every quarter, they ask themselves: What is the single most important thing going on in the business in the next 90 days that we want everyone to be aligned on? Then they assign a "Champion" to prepare a presentation, using guidelines from a sheet of best practices for Quarterly Themes that the company outlined. A designer in the software division creates a humorous visual theme to align everyone in the company around it. The Champion who selects the theme can be any employee, but Browne and his managing director have final approval.

The presentation is shared in an hourly meeting with all of The City Bin Co.'s employees each quarter. Within each theme, the company lists smaller "Rocks" (column 5 of the OPSP) that need to be addressed in order to achieve the company's big goal for the next 13 weeks, helping to focus everyone on execution. Though employees do not discuss the themes during daily huddles, which are focused on daily operations, they devote 30 minutes at weekly meetings to addressing progress toward the Quarterly Theme. Particular employees are asked to take ownership of the Rocks in their areas of responsibility, and the company's managing director and finance manager track progress toward meeting the goals, using key metrics. "It transformed the company," Browne says.

Here are several examples of The City Bin Co.'s Quarterly Themes:

Saving Mrs. Ryan

With price pressure in his industry especially high, one of the themes that Browne introduced in the first quarter of 2014 was "Saving Mrs. Ryan." Borrowing from the military theme of the movie *Saving Private Ryan,* the 90-day campaign focused on attracting 10,000 individual new customers, homemakers now identified as "Mrs. Ryan" (the company's core "Who"). The cover of the presentation was illustrated with the silhouette of a soldier, flanked by the company's trash cans. "Competitors' contracts were coming up for renewal, and we wanted to bring onboard 10,000 new Mrs. Ryans," says Browne. "We wanted to save these Mrs. Ryans from the 'Soviet era' service of a rival firm, so we sent a door-to-door 'assault' team to rescue them."

Giant posters in the company's main office and depot reminded employees of each quarter's theme. In this case, above office workers' cubicles were "Saving Mrs. Ryan" posters, designed to look like the movie poster from the Tom Hanks film. A board in the company's main office tracked the number of contracts being signed, providing daily progress reports to the entire company. At weekly meetings, there were more detailed updates, in which the managing director presented a slide — in military green, with a stencil font similar to the one used by the US Army — showing progress in meeting the subsidiary goals, or rocks. The City Bin Co. provided bonuses to particular employees who moved the needle toward the goal each month, to keep the momentum going. "Instead of waiting until the end, this is better," says Browne.

To motivate its team to exceed its goals, The City Bin Co. sometimes picks a Super Green benchmark that is above and beyond its target for a given theme. For the "Saving Mrs. Ryan" theme, the company selected a Super Green target of saving 12,000 Mrs. Ryans.

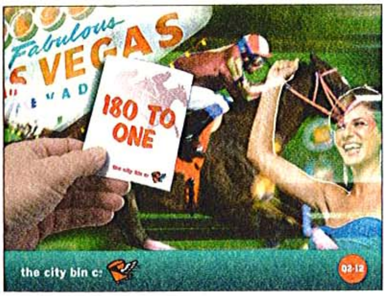
Life Begins at 40

The City Bin Co.'s themes have varied along with the constraints confronting the company each quarter. To raise profitability while recovering from the recession, the company ran the "Life Begins at 40" campaign from August to October 2011, with an image of a Las Vegas slot machine hitting the jackpot gracing the guidebook's cover. The idea was to increase the company's monthly earnings by 40,000 euros a month, either through annual savings or recurring revenue. Employees were invited to submit ideas to raise cash or slash the budget.

The theme was lighthearted, but Browne knew it was necessary for the long-term survival of the company. "The economy had contracted so much that a lot of companies in Ireland were closing down," says Browne. "'Life Begins at 40' was saying that if we can get to this magic figure, it'll ensure that we can ride through this economic storm." The company managed to achieve its goal to fuel growth.

180 to One

Another lighthearted, betting-oriented theme, "180 to One," focused on having each of Browne's 60 employees spend one day a month job-sharing during the first quarter of 2012 (60 employees x 3 job-sharing days = 180), to improve customer service throughout The City Bin Co. "We wanted to get people thinking outside of their own department and get an appreciation of what the other departments do," says Browne. That meant having the accounts people work in the call centers, asking the customer center workers to ride around in the company's garbage trucks, and enlisting the truck drivers to answer the phones at the customer center.



Customer service and staff cohesiveness improved tangibly. A truck driver now knew what types of complaints would come into the call center if a bin was not picked up. "We've seen a big change in relation to the culture," says Browne. "If you ask people what the one thing The City Bin Co. is about, they will say, 'Customer service.'" At the end of the quarter, the company celebrated beating the odds and accomplishing its goal by inviting its team to the dog races.

Bin it

Some themes have focused on improving efficiency. One, adopted in the second quarter of 2012, was called "Bin it." It asked employees to submit index cards listing wasteful practices and unnecessary tasks they wanted to stop doing — anything that was depleting time, money, energy, or space without a valuable result. "People like me, in senior management, ask people to do things and load them on," says Browne. "We never take away stuff." Often, employees may hesitate to speak up or to question a manager about why they're doing something, even if it's obvious to them that it isn't necessary.

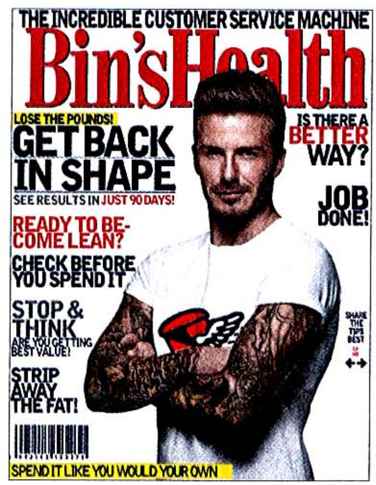
Browne had one reminder of how much time could be wasted this way after he asked a team member to keep track of customer signups on a spreadsheet that he intended to monitor for three months during a marketing campaign. Nearly three years later, in a casual conversation, the employee mentioned that she was still keeping the spreadsheet.

"You're still doing that?" Browne asked. "I haven't looked at it in two and a half years."

To inspire employees to clear the decks of projects like this and focus on what really matters, the "Bin it" campaign awarded prizes — ranging from tickets to the cinema to a weekend break — to those who submitted items that were approved to be "binned." As with its other Quarterly Themes, The City Bin Co. introduced this one with a launch party; it celebrated with a barbecue upon meeting its goals. And lest employees forget about the theme, floor-to-ceiling red posters at the company's offices reminded them to "Bin it."

"We binned more than 150 activities over that quarter, many of which affected several individuals, so the total impact was huge," says Browne. "It also brought a new phrase and philosophy to the company culture."

Bin's Health



After the company invested heavily in a marketing campaign, it introduced the "Bin's Health" theme for May through July 2013. The presentation of the theme was a play on the magazine *Men's Health* — complete with David Beckham on the cover, with an image of The City Bin Co.'s logo superimposed on his chest. The company had been splurging on marketing spending as it made a major move into a new market that helped grow its customer base 250%. "However, at a certain point, there's no more bang to your buck" says Browne — and it was time to get lean again. The presentation outlined the company's goals for cutting spending by set percentages in salaries, transportation, advertising and design, legal and professional services, vehicle hires, and landfill costs.

In this case, The City Bin Co. didn't meet its goals, but it made progress toward them. "It was very clear some time into it that we were probably a bit too aggressive on our goal," Browne says. While the company held its customary parties to kick off the theme and to celebrate the end of the 13 weeks, it did not offer any awards, as it did when the team met goals in other quarters.

NOTE: *The City Bin Co. alternates between a Critical Number and Quarterly Theme that are focused on improving the People side of the business ("180 to One," "Saving Mrs. Ryan") and the Process side of the business ("Life Begins at 40," "Bin it," "Bin's Health"). It's important to find the same kind of balance as you sequence your #1 priorities.*

To Reward or Not To Reward

What if in the middle of a Quarterly Theme or an annual one, you feel the team is going to miss the Critical Number, maybe substantially? Do you adjust midstream? Do you lower the target?

If the organization misses the mark, you have three options:

1. Repeat the Critical Number in the next quarter if it's still crucial that the organization achieve the target. We've seen this when a quality or a customer service score needs to be reached.
2. Move on to another Critical Number if you sense that enough momentum was created with the previous target to keep the organization trending in the right direction.
3. Do a root-cause analysis to uncover the reasons your organization didn't achieve your Critical Number. Choose one of those reasons to fix in the next quarter. For instance, The City Bin Co.'s "180 to One" theme addressed an organizational health issue. Browne felt team members needed to step back and gain more empathy for each other's situations so they would be ready to work as one to achieve the next target.

Like the river making its way from Everest to the ocean, your organization will have to constantly navigate obstacles and take a step back (or pause) every once in a while. One reason we encourage organizations new to this process to start out with Quarterly Themes, rather than annual ones, is that it isn't uncommon for teams to fall short of their goals in the beginning. Don't change the goals. It can be inspiring to stick with a target to see if the team can pull out a victory in the last few days.

At the same time, no one's paycheck should suffer because the senior team chose an overly aggressive goal or one that the team was not prepared to achieve. Pick celebrations and rewards that are mostly for fun.

And having three potential targets — Super Green, Green, and Red — ups the odds that the team will earn a medal. Even if you don't hit the minimum goal, convene the team for an event to announce the results. One company promised a barbecue at which management would cook if the team achieved certain employee-retention goals. The higher the target, the better the menu. If the team hit 75% retention (Red), employees would dine on hot dogs and hamburgers. If they reached 80% (Green), management would serve chicken and ribs. The company promised steak if the business held on to 85% of employees (Super Green). When the team missed even the minimum, management instead hosted a soup kitchen.

Last, as the company matures in the use of quarterly and annual themes, you can dial up the rewards. At Jack Stack's SRC Holdings Corporation, a group of companies with revenue totaling over half a billion dollars, roughly 15% of employees' compensation is tied the achievement of the Critical Number. Again, we strongly encourage you to read Stack's book *The Great Game of Business,* and have a team travel to Springfield, Missouri, to attend his two-day "Get in the Game" workshop. It's particularly useful for CFOs and COOs.

Customer and Employee Feedback

Jack Harrington, CEO of Virtual Technology Corporation (VTC), was hosting the company's first quarterly offsite to determine the Critical Number and theme. Coming off a previous quarter of phenomenal growth, the senior team focused on continuing to drive revenue, aiming to add $6 million in revenue to the pipeline in the coming quarter.

While there, in preparation for an upcoming strategic-planning offsite, the company conducted an analysis of strengths, weaknesses, opportunities, and threats and a survey of management to learn their top three priorities. It also surveyed employees. It found that the frontline team was deeply concerned that VTC was in danger of failing to deliver on projects already in progress, risking the firm's stellar reputation.

Fortunately, the senior team was "healthy" enough that an executive spoke up during the offsite and advocated for the employees' viewpoint. In the end, Harrington and the team pivoted their focus to recruiting, hiring, and onboarding 16 hard-to-find distributed-simulation experts in the next quarter, to both relieve pressure on the existing team and prepare VTC for the additional business it planned to acquire. This removed the constraints on the company.

Going with a "Sweet Sixteen" theme (who would have imagined that a bunch of techies would enjoy such a thing!), VTC engaged all 120 employees in the process, structuring internal bonuses for anyone in the firm who could recruit one of these specialists. Mara Harrington, Jack's wife and the head of human resources, was relieved to get the help, and in the end, the company brought on board 20 of these critical team members, exceeding its goal. The following quarter, it followed up with a "Six Million Dollar Man" theme based on the classic '70s hit television series (people still talk about VP of Sales Doug Greenlaw running into the Quarterly Theme launch event dressed in a Lee Majors-like red jumpsuit!), where employees continued to pour on the gas and ramp up the sales pipeline.

Later that year, the company was purchased by Raytheon for a hefty multiple of EBITDA precisely because VTC had almost all the quality distributed-simulation experts on its team. It controlled a critical constraint/choke point in the industry! In the "Strategy" section, Verne shared Harrington's post-VTC story at Raytheon as he went on to head billion-dollar divisions for this global conglomerate.

WARNING: *The Critical Number, like the rest of the organization's strategy, cannot be set in isolation from the realities of the company and the marketplace. Employees and customers will think the senior team was smoking something if they come down from the mountaintop with "the tablets" pronouncing the latest strategic plan without having completed the necessary preparation. And as Jack Stack strongly suggests, it's best if the Critical Number is benchmarked against an external standard (e.g., "If that company can achieve 12 inventory turns, why can't we?"), so employees don't think the senior team was just making stuff up!*

Theme Creation and Celebration

At ProService, a group of employees who are not part of the executive team developed every aspect of the 600-referral theme. Their efforts included producing a "Happy" video to celebrate the achievement of their goal (search "Happy ProService" on YouTube).

"Basically, the team said, 'Let's put together a fun video to celebrate achieving our goal,' " says Godsey, the president. "They started to riff and innovate, and then invited people to participate in the celebration, saying, 'Show us your happy dance.' Different teams made up different fun little dances. And then bam! The end result of the video was even better."

As at ProService, you should delegate the actual creation of the theme to a nonexecutive team. Almost every company has a team member who is skilled in using a computer to create videos, posters, and other themed collateral. The senior team doesn't need another job, and it's best if an employee-run team drives the theme activities.

Powerful Celebration Question

At the celebration, skip the usual speeches by the senior team about "How we couldn't have done this, that, or the other thing without so-and-so's help, etc." Instead, ask the most powerful question a leader can pose when a team has successfully completed anything: "How did you do it?" Stand up and say "Congratulations. We said we would do X, and we did it!! How did you do it?" Then pick someone who you know contributed to reaching the Critical Number, and have that person share his or her story. This hint is courtesy of Aubrey C. Daniels, author of *Bringing Out the Best in People: How to Apply the Astonishing Power of Positive Reinforcement* (a foundational business book that all leaders should read). By the way, if you're a parent, this is a great question to ask your children when they come home with a success story. Rather than shower them with praise, simply say: "Congrats. So how did you do it?" and let them share their story.

Nothing builds momentum and energy like hitting specific targets. If your company has been through some rough times lately and the culture has taken a couple of body blows, pick some really short-term goals, focus everyone on the same thing, "play to win," and get back your mojo!!

Rockefeller Habits #3, #4, #7, and #8

Rockefeller Habit #3, Meeting Rhythm, will be covered in its own chapter at the end of this section.

Rockefeller Habits #4, #7, and #8 have already been covered extensively. But here are quick recaps:

Rockefeller Habit #4 — *Every facet of the organization has a person assigned with accountability for ensuring goals are met* — was covered in "The Leaders" chapter. We include a mention in the chapter on "The Priority" because the related worksheets focus on determining the **one** person accountable for the functions, outcomes, and processes of the organization.

4. Every facet of the organization has a person assigned with accountability for ensuring goals are met.

- ☐ The Function Accountability Chart (FACe) is completed (right people, doing the right things, right).
- ☐ Financial statements have a person assigned to each line item.
- ☐ Each of the 4-9 processes on the Process Accountability Chart (PACe) has someone that is accountable for them.
- ☐ Each 3-5 year Key Thrust/Capability has a corresponding expert on the Advisory Board if internal expertise doesn't exist.

Rockefeller Habit #7 — *Core Values and Purpose are "alive" in the organization* — was covered in "The Core" chapter. It's important that the Core Values and the Purpose are given priority when making hiring (and firing) decisions — and when sharing praise and constructive criticism. It's also crucial that the leadership team formulate its **one** passionate stump speech that can be repeated to reinforce the bigger Purpose of the organization.

7. Core Values and Purpose are "alive" in the organization.

- ☐ Core Values are discovered, Purpose is articulated, and both are known by all employees.
- ☐ All executives and middle managers refer back to the Core Values and Purpose when giving praise or reprimands.
- ☐ HR processes and activities align with the Core Values and Purpose (hiring, orientation, appraisal, recognition, etc.).
- ☐ Actions are identified and implemented each quarter to strengthen the Core Values and Purpose in the organization.

Rockefeller Habit #8 — *Employees can articulate the key components of the company's strategy accurately* — was covered in "The One-Page Strategic Plan" chapter. In essence, it speaks to the need for all employees to understand key aspects of the Vision and Strategy of the business, as reflected on the Vision Summary worksheet. And it helps drive alignment if all the employees have the same "elevator pitch" they share when asked the question, "What does your company do?"

8. Employees can articulate the following key components of the company's strategy accurately.

- ☐ Big Hairy Audacious Goal (BHAG) – Progress is tracked and visible.
- ☐ Core Customer(s) – Their profile in 25 words or less.
- ☐ 3 Brand Promises – And the corresponding Brand Promise KPIs reported on weekly.
- ☐ Elevator Pitch – A compelling response to the question "What does your company do?"

The balance of the Rockefeller Habits (#5, #6, #9, and #10) will be covered in the next chapter, "The Data."

10

THE DATA
Powering Prediction

EXECUTIVE SUMMARY: *The fundamental job of a leader is prediction, according to the late business consultant W. Edwards Deming. At the heart of a leader's ability to predict is data — and lots of it. Big data analysis has become mainstream and within reach of companies of all sizes. Yet leaders also need plain old human-gathered intelligence to get a gut feel for the market and what is happening in the company, so that they can make the right decisions. Talking weekly with customers and employees and then discussing what's been learned at the executive huddle is critical. And engaging all of your employees in data collection, with a middle-management team leading them, spreads out the work so the senior team doesn't get buried.*

Netflix Inc. co-founder and CEO Reed Hastings, *Fortune's* Businessperson of the Year in 2010, fell from grace a year later with the botched introduction of a new pricing scheme and the aborted spinoff of its DVD mail-order service under the Qwikster name, which sent customers running and the stock plunging. Many insiders claim that Hastings had stopped listening — to his team and his customers — and damaged Netflix's reputation by messing with the company's (brand) promise of simplicity. Hastings himself admitted his arrogance. Three weeks after announcing the Qwikster launch, the San Francisco Bay area company said it would keep its single, simple website and login for accessing movies and TV shows — though the price increase for a separate DVD service remained.

Speed forward 30 months, and Hastings was once again a star. Netflix's stock price had more than doubled from the year before, and the CEO was riding a wave of global enthusiasm for the company's hit series *House of Cards,* the most streamed piece of content in the US and 40 other countries when it was released. *Fortune* called this the best turnaround of 2013. Hastings continues to bet on original content that streams exclusively on his platform. Who knows if Hastings' company will withstand the onslaught of competition, but he seems to have a golden touch in predicting precisely what consumers around the world want to watch.

Big Data

Hastings' secret weapon is data — and massive amounts of it. It is big data analysis that allowed him to predict that a series based on the corruption of government, starring Kevin Spacey and directed by David Fincher, would be a sure bet. According to KISSmetrics, a leading blog about analytics, marketing, and testing, here's a list of some of the "event" data that Netflix tracks for its 44 million subscribers:

- When you pause, rewind, or fast-forward
- What days of the week you watch content (Netflix has found that people generally watch TV shows during the week and movies over the weekend)
- The dates on which you watch
- What time you watch
- Where you watch (by ZIP code)
- What device you use to watch (Do you use your tablet for TV shows and your Roku for movies? Do people access the Just for Kids feature more on their iPads? And so on.)
- When you pause and abandon content (and if you ever come back)
- The ratings given (about 4 million per day)
- Searches (about 3 million per day)
- Your browsing and scrolling behavior

The way in which businesses use data to make decisions — to predict — is undergoing the most radical change since the beginning of commerce. For more on this transformation, read *Big Data: A Revolution That Will Transform How We Live, Work, and Think* by Oxford professor Viktor Mayer-Schönberger and Kenneth Cukier, data editor of *The Economist.*

Intelligence-Gathering

Data analysis must be augmented with plain old human intelligence-gathering. For all the big data computing power that Wal-Mart Stores Inc. possesses, it sends teams from the Bentonville, Arkansas, headquarters out to stores to gather insight Monday through Thursday, bringing them back Thursday night. On Friday morning, its executives pore over all the quantitative data from its computer systems, along with the qualitative intelligence picked up from talking with customers, meeting with employees, and shopping at competitors' stores during the week.

David Glass, former CEO of Wal-Mart and now owner and CEO of the Kansas City Royals baseball team, recalls this routine well. "We would decide what corrective action we wanted to take [Friday morning]," he says. "And by noon on Saturday, we had all our corrections in place. Our competitors, for the most part, got their sales results on Monday for the prior week. Now they're 10 days behind, and we've already made corrections."

It's this "learn fast; act fast" cycle that put Wal-Mart ahead of the competition. And as this example demonstrates, you don't have to be months or even weeks ahead, just 10 days ahead for more than 50 years. Wal-Mart's routine is not just for large companies. Its habit of gathering data on employees, customers, and the competition started in 1962 with a 6 a.m. meeting every Saturday at Sam Walton's first store.

"Learn fast; act fast."

Two lessons:

1. Senior leaders need to be in the market 80% of the week, either figuratively or literally.
2. This routine must start on day one and continue through half a trillion in revenue!

Speed is the key. After General Electric's Jack Welch visited Wal-Mart (yes, industrial firms can learn something from retailers and vice versa), he implemented Quick Market Intelligence, which Jeff Immelt, the current CEO of GE, has continued. In essence, all salespeople in GE must communicate daily or weekly what they are hearing about competitors and learning in the field from customers. The organization disseminates their insights rapidly to the rest of its team.

NOTE: *For an excellent look at the "Growth Process" at GE, read the interview with Immelt in the June 2006 issue of the* Harvard Business Review. *You'll see how GE is using a red, yellow, and green measurement system; measuring advocacy by customers using the Net Promoter Score; streamlining with Lean and Six Sigma techniques; and using Work-Out sessions to garner feedback from employees. The interview describes a tour de force of best practices that align closely with the ideas in this book.*

Metrics Everywhere

Gazelles' Growth Tools are replete with boxes asking you to pick Key Performance Indicators (KPIs) and Outcomes. We start with the functions and processes driving the business, then push for the company to set goals, delineate measurable Brand Promises, and pick Critical Numbers on the One-Page Strategic Plan, including KPIs for both the People and Process sides of the business so the leadership team has a balanced view of performance. The challenge is choosing metrics that matter, meaning those that measure what's important to customers, and provide sufficient insight to help both the leadership team and all employees see problems and opportunities in time to react.

However, quantitative metrics alone provide an incomplete view. Qualitative insights from conversations with the market and observations of customers and competitors fill out the data set needed to guide decisions. Input from advisors, experts, and "the crowd" also contribute. Piling all of this data into computers and our brains and engaging in healthy, frequent debate helps leaders make decisions — regarding hiring, product, marketing, etc. — with a high degree of confidence.

By following processes and routines like these, Roger Hardy and his team at Coastal.com, highlighted in the introduction to this section, have scaled up a company that's now worth almost half a billion dollars. Following are detailed recommendations and examples of growth firms that are putting these weekly habits in place to gather the kinds of data — quantitative and qualitative — that are critical to supporting the important leadership capabilities of prediction, delegation, and repetition.

WARNING: *If talking with customers and employees routinely is so powerful, why do leaders stop doing it? It's because they continue to hear the same recurring issues or praise over and over — and have to take time from their busy schedules to listen to stories that seem to have zero relevance to their businesses. However, it takes only one or two key ideas to fuel a business model. So hang in there, embrace the human aspects of these conversations, and relish the moment the light bulb goes on — it will!!*

Let's now look at the details of collecting input from employees first: Rockefeller Habit #5.

Rockefeller Habit #5: Gather Employee Input

Have you noticed the humongous Big Ass Fans in airports and warehouses around the world? Manufacturer Big Ass Solutions, a rapidly growing Kentucky firm, rocketed from $34 million in

5. Ongoing employee input is collected to identify obstacles and opportunities.

- ☐ All executives (and middle managers) have a Start/Stop/Keep conversation with at least one employee weekly.
- ☐ The insights from employee conversations are shared at the weekly executive team meeting.
- ☐ Employee input about obstacles and opportunities is being collected weekly.
- ☐ A mid-management team is responsible for the process of closing the loop on all obstacles and opportunities.

revenue in 2009 to $115 million in 2013. More important, its employee retention is 93% vs. a US average of 63%. Founder and Chief Big Ass Carey Smith (now that's a title!) has driven a series of initiatives. Besides offering top-tier perks — including an on-site health clinic, subsidized catered lunches, and a game room (hey, this isn't Silicon Valley) — Smith and his top managers take half a dozen workers to dinner at one of the area's best restaurants each week. What better way to tap into the rumor mill, pick up ideas, and share a little bit of the company's DNA with the team?

Bring Every Brain Into the Game

Walton, back in 1962, saw the value of meeting with employees weekly to seek their ideas for making the business better, which was quite progressive at the time. Without a formal routine to prompt members of your team to share their perspectives, you risk having those ideas walk out the door at the end of every day. Worse yet, your workers miss an opportunity to contribute and feel good about it.

At a minimum, we recommend that *all executives (and middle managers) have a Start/Stop/Keep conversation with at least one employee weekly.* Even though you might see a lot of your employees each week, stopping by for a casual chat or two, that is not the same as having a 15- to 45-minute focused conversation with an individual or a group of employees to gather feedback and ideas. Choose employees who work directly with customers and those newest to the company. Recent hires will have fresh eyes that lead them to notice things longer-term employees have come to accept.

Here are three simple questions that we recommend you use when holding these conversations:

- *What should we **start** doing?*
- *What should we **stop** doing?*
- *What should we **keep** doing?*

We encourage leaders to pay particular attention to the "stop doing" responses. They are likely destroying the motivation of the employees, as we discussed in "The Team" chapter.

NOTE: *Some might equate these questions to the creation-preservation-destruction cycle from Hindu mythology.*

HINT: *In some company cultures, this type of conversation may feel strange at first. Don't be surprised if there's awkward chitchat at the beginning of the conversations. What's important is that by the end, you've reminded your employees that it might be months before they have this opportunity for a one-on-one again. Ask them one more time if there is anything else they think should be started, stopped, or kept, and they will normally open up.*

Markitforce's Employee Lunches

Founder and Chief Engagement Officer Alan Higgins spends a lot of time focusing on the culture at Markitforce, a Sydney-based firm that creates fulfillment campaigns and offers warehousing, distribution, and account management services in the warehousing industry. He takes one employee out for lunch each week to learn more about him. Before the meal, he asks the employee to answer a few questions that are discussed during lunch: What should Markitforce start doing, stop doing, and keep doing? What does the staffer love and loathe about his job? What are his 101 goals in life — both professional and personal? "I tell them to write this stuff down, because if they write it down, it will happen. Things just start to fall into place," says Higgins. "It's pretty powerful. And, as a leader, it's my objective to help them check things off their list."

Discuss at the Weekly Management Meeting

Rather than create detailed reports that no one has the time to read, Higgins shares insights from his conversations with employees at the weekly executive team meeting. He includes 10 minutes on the agenda for sharing employee feedback (detailed in "The Meeting Rhythm" chapter). Hearing his stories gives the leaders a better feel for the pulse of the business.

If you plan to act on any concrete "start" or "stop" ideas, feed them into a more formal employee-suggestion process. Also include information from the "stucks" mentioned in the daily huddles, which we will also describe in the upcoming chapter.

Ongoing Feedback

Collect weekly input from employees about obstacles and opportunities. To keep this from turning into a collection of gripes, provide some prompts. Ask employees to submit suggestions that will:

1. Increase revenue.
2. Reduce costs.
3. Make something easier/better for the customers or employees.

Ways to tap into employee ideas include 3M's "15 percent rule," launched in 1948, which allows employees to spend a proportion of paid time on projects of their own choosing. Google, Apple, and other companies now have similar policies. At Sydney-based software firm Atlassian, employees get 24 hours to produce innovations on "ShipIt" days. And Jimmy Calano, who built CareerTrack Inc. into the largest one-day-seminar company in the world, and sold it to cable conglomerate TCI, implemented what he called a 3I program.

Each month, every manager (Calano had 40 at the time) had to submit three ideas for increasing revenue, reducing costs, or making something easier at the Colorado-based company. Calano would spend the Sunday morning before the Monday monthly management meeting going over the 120 ideas and writing detailed responses, especially for concepts that needed more work to implement. He would then choose the top 20 ideas for the month and announce them at the management meeting, handing each winner a crisp $20 bill for fun.

The 3I program gave Calano real insight into the gaps in knowledge among his frontline and middle managers, affording him many "teachable moments" when responding to their submissions. And Calano could document millions of dollars' worth of improvements from these ideas. Equally important, having to submit three ideas every month forced all of his managers to seek input from frontline employees and customers.

Close the Loop

Gathering employees' feedback and ideas will backfire on the company if management doesn't close the loop and act on their suggestions. At a minimum, let an employee know why an idea can't be implemented.

The biggest obstacle is finding the time. The senior team doesn't need any more to-do's. Therefore, we strongly recommend *holding a middle-management team responsible for responding to employees' feedback on all obstacles and opportunities.* This is an excellent executive-development opportunity for a group of up-and-coming leaders as they gather and react to the suggestions and work cross-functionally to implement them.

And just as you probably track the number of days you take to pay your vendors (accounts payable days) or to get paid (accounts receivable days), we suggest that you track the number of days it takes to implement the ideas gathered from your employees. Have the middle-management team that is driving this process create a "Suggestion Aging Report" tracking how many ideas are 30, 60, and 90 days past due.

Last, be transparent with employees. Set up an internal Web portal where all suggestions are listed (unedited) with updates on progress, or simply write them on a huge whiteboard in the break room and erase them only when they've been addressed. In addition, publish updates in internal newsletters.

WARNING: *Any submissions that single out individuals in a negative way should, of course, be handled privately and never be posted.*

Rockefeller Habit #6: Gather Customer Input

6. Reporting and analysis of customer feedback data is as frequent and accurate as financial data.

- ☐ All executives (and middle managers) have a 4Q conversation with at least one end user weekly.
- ☐ The insights from customer conversations are shared at the weekly executive team meeting.
- ☐ All employees are involved in collecting customer data.
- ☐ A mid-management team is responsible for the process of closing the loop on all customer feedback.

Sanjeev Mohanty is the CEO of India's #1 international fashion brand as of 2014, when Benetton India Private Ltd. surpassed Levi's to take over the top spot. He attributes the company's rapid growth and success to its intense daily interaction with its more than 5 million customers. Through a process launched after its first Rockefeller Habits workshop, it placed signs in its stores requesting that customers send feedback via email. In addition, as required by law, it prints an email address on every clothing tag.

Most retailers merely pay lip service to the notion of listening to customers' complaints and suggestions. Mohanty automatically receives a copy of every submission and replies directly to several every day (while his team follows up on all of the rest). If the customer gave a phone number, he'll call the patron. This generates wildly positive word-of-mouth enthusiasm for Benetton India. And Mohanty and his team have picked up clues from these conversations that drive many of the innovative clothing lines outside the company's main offering, which have helped him rapidly scale up revenue and the brand.

Down the road in Bangalore, 4,200-employee QuEST Global Engineering Pvt. Ltd. landed a five-year, $50 million contract, thanks to its efforts to get feedback from customers. Competing with 2,000 vendors, QuEST made it into the final two. Ajay Prabhu, COO, made a winning move — right into the Marriott hotel across the street from the prospect's offices. Every day, Prabhu and a senior vice president met there with people at all levels of the potential customer's company, so they could improve QuEST's proposal in real time.

"We really gathered all the 'what ifs' and learned what issues might work against us," says Prabhu. "When we finally submitted the proposal, all the customer contact had been a game changer for us. The customer could see we were paying attention to them and to the details. And we were able to make decisions quickly while our competition, being a much larger company, had to go through several different layers of management back at HQ to get an answer. In our case, the decision-makers were right next to the customer. It was like we were camping out together."

QuEST also surveys customers immediately after completing projects. If the results are not satisfactory, it completes a detailed analysis of what went wrong. However, Prabhu notes, "While customer satisfaction is important, there has to be a balance." QuEST uses a triple scorecard approach to satisfaction — measuring satisfaction among customers, employees, and the company itself. The first two, customer (c-stat) and employee (e-stat) satisfaction, are benchmarked against industry standards. The third one, QuEST Satisfaction (q-stat), is used to evaluate whether or not to accept projects. "We don't take projects until they meet QuEST Satisfaction. It has to be a client that we can make more efficient and profitable, and it has to fit with our strategy," says Prabhu.

Conversations With Customers

We implore all executives and middle managers to have a 4 Questions (4Q) conversation with at least one end user weekly. Particularly in business-to-business situations, you may have to bypass your distribution channels and purchasing agents (with permission) and talk directly with those benefiting from your products and services.

The 4Q refers to the four questions that we suggest leaders ask customers in person (not on a survey):

1. How are you doing?
2. What's going on in your industry/neighborhood?
3. What do you hear about our competitors?
4. How are we doing?

The key is to get them to talk about their favorite subject: themselves!! The first question will give you an understanding of their current situation: What are their pain points? What are their priorities for the coming year?

And for salespeople in a B-to-B situation, find out what the person's bonus is tied to. You don't need to know the amount, but your goal is to show how your products and services can help them achieve their targets.

The second question offers insight into industry trends in general. What are the newest changes or technologies? Who is buying whom in the industry? And if you are talking with consumers, what are they and their neighbors thinking/feeling/talking about?

The third query is probably most important, because it can help you cut through your own biases. It was this question that helped Coastal.com realize that it shouldn't lower its prices to ward off ankle-biting, low-price competitors. When Hardy's leadership team asked customers point-blank what they thought of its competitors, they raved instead about Coastal.com and its rapid response to phone calls and customer service.

Only after you've asked your customers these three questions should you ask about their reactions to your offerings, if they have not shared these already. Remember, this call is about them, not you!

In a business-to-business environment, have all senior leaders connect with their counterparts at customers' companies (e.g., your CFO should talk with the client's CFO). Communicating with other specialists in their area will allow them to pick up insights others will miss.

Look at these efforts as an investment in customer retention. At rapidly growing companies, the team is often so busy chasing new opportunities that the existing clients feel ignored. If companies were able to hold on to the customers they now lose from neglect, it would fuel at least half of their growth.

Using Social Media

Coastal.com came out of a two-day planning session struggling with ideas on how to grow. So Hardy and his management team decided to call 30 to 40 customers every Friday for feedback. To Hardy's surprise, the same theme surfaced: Patrons wanted their contact lenses the next day. "Speed is very much a part of the business, and we heard that message from customers," says Hardy. When customers order contacts, they are often on their last pair. "We started overnighting everything, and sales grew 60% in one of our markets," Hardy says.

Today, Hardy reports that as consumers spend more time on social media, it can be challenging to get feedback through phone calls. "We were at a point where we were leaving 40 messages and not getting as much feedback. It was unproductive," he says. Now Coastal.com uses SurveyMonkey to get feedback immediately after a purchase, using the NPS. The company also relies on comments through Facebook, which can be left easily and quickly. "We try to figure out hot spots from the comments we get through social media," says Hardy.

Discuss at the Weekly Meeting

Share insights from conversations with customers at the executive team's weekly huddle. Don't bog down the process with a bunch of written reports.

At global consulting firm Bain & Co., loyalty practice founder Fred Reichheld and his team found a company in almost every sector that was growing top-line revenue 2.5 times faster than its competitors. So they set out to identify what these companies did differently. At the "good" companies, the executive team spent zero time discussing what it was hearing from customers at its weekly meeting. The only time a customer's name came up was if there was a crisis. (Think about your own weekly meeting!) In contrast, the "great" companies — which, like Enterprise Rent-A-Car, were growing considerably faster — spent roughly 20% of their leadership team's meeting discussing feedback from customers.

Involve All Employees (Especially Salespeople)

Whichever competitor has the most market intelligence, and uses it, wins. The fastest-growing companies of this century — Facebook, Google, Amazon, Booking.com, and Netflix — have built business models predicated on being able to tap into more input from customers than anyone else. Using powerful algorithms to discern correlations from users' actions gives them a great deal of their insight. Much of their data also emerges from enticing customers to make comments and leave ratings for innumerable products and services online. We're in an era in which people don't trust large institutions. Instead, they turn to "the crowd" to help them figure out which doctor or vacation spot to visit.

Appletree Answers, highlighted in the "People" section, built an application on top of its CRM system, called Idea Flash, to collect suggestions from its frontline call-center people by the minute. With this program, the agents log ideas and issues from customers during live conversations and add their own suggestions and observations into a central database so these valuable insights do not get lost. In the first 90 days (when Idea Flash was Appletree's Quarterly Theme), employees generated more than 8,800 ideas, and they have continued to supply the company with 3,000 to 5,000 every quarter since. Just one of the thousands of ideas submitted resulted in a $17,000-per-month profit for a client. Now that's turning customer feedback into customer service.

It's particularly important to encourage all your salespeople, distributors, and independent reps (in all of your sales channels) to gather and report market intelligence. Require all of them to call in daily to a voice mailbox and leave a three-minute update on any positive sales results. (Salespeople like to share good news.) Ask them to provide feedback from customers and about competitors and report on barriers they are facing in making sales. Do not ask them to put this information in writing, or it won't happen. (The only written report is the one you threaten to make them write if they don't call in daily!) Most Internet-based phone systems have the capability of converting voice messages into text messages, so you will have your salespeople's thoughts in writing without having to listen to a bunch of voice mails.

Again, Close the Loop

As with employee feedback, *hold a middle-management team responsible for the process of closing the loop on all customer feedback*. This team normally reports to the senior leader accountable for the customer advocacy function listed on the FACe chart, which can be found in the "People" section.

Getting the Most Out of Net Promoter Scores

We have mentioned the NPS several times throughout the book as our preferred way to measure customer satisfaction (advocacy) and engagement. Fred Reichheld popularized it in his book, *The Ultimate Question: Driving Good Profits and True Growth*, and today's revised and expanded version, *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World*. In short, the idea is that satisfied customers can be passive, transacting with you but not necessarily engaged. For growing companies, engaged customers —those that are thrilled enough to tell others about you —are critical for profitable growth. The NPS measures the net percentage of your customers who are actively spreading the good word about your company. It is a system that Apple, Enterprise Rent-A-Car, and hundreds of our clients use to manage this aspect of their business.


1 How does our food taste? 我们餐的味道怎么样? (0-10)
[WHERE'S MY TOOTHBRUSH? 牙刷在哪儿?!] 0 1 2 3 4 5 6 7 8 9 10 [GIMME MORE! 多来一点儿吧!]
2 How convenient is it to order from us? 您点餐的经验顺利吗? (0-10)
[KILL ME NOW! 太麻烦了!] 0 1 2 3 4 5 6 7 8 9 10 [EASY AS! 方便!]
3 Would you recommend us to a friend? 您会把我们推荐给您的朋友吗? (0-10)
[NO WAY! 不可能!] 0 1 2 3 4 5 6 7 8 9 10 [EVERY CHANCE I GET! 大声宣布!]
4 If you scored us 8 or below can we call you to, uh, find out why?
如果您的打分低于8分,可以联系您了解情况吗? YES! NO!
THANKS FOR YOUR TIME! (YOU'RE AWESOME!) 谢谢你的时间! (你太棒了!)

Beijing-based Gung Ho! Pizza uses the NPS to measure customer satisfaction, linking the results each month directly to employee bonuses — along with the four Brand Promises and a sales target. Each day, every store sends out two questionnaires with delivery people to randomly selected existing customers, for a total of 60 surveys per month. To keep it simple, the survey asks four questions, including the NPS question, "Would you recommend us to a friend?" It also includes a spot for the customer to add a phone number. Then the Gung Ho! Team calls these customers to learn how the company might do better.

Rockefeller Habit #9: KPIs for Everyone

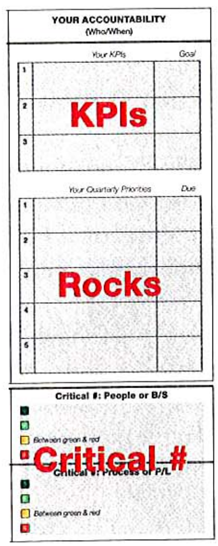
9. All employees can answer quantitatively whether they had a good day or week (Column 7 of the One-Page Strategic Plan).

- ☐ 1 or 2 Key Performance Indicators (KPIs) are reported on weekly for each role/person.
- ☐ Each employee has 1 Critical Number that aligns with the company's Critical Number for the quarter (clear line of sight).
- ☐ Each individual/team has 3-5 Quarterly Priorities/Rocks that align with those of the company.
- ☐ All executives and middle managers have a coach (or peer coach) holding them accountable to behavior changes.

This habit is linked directly to column 7 of the One-Page Strategic Plan, discussed in the "Strategy" section. It is important to have a clear plan for the company for the next quarter. In turn, each team and person needs individual quarterly goals that align with the plan. This creates "line of sight," as discussed in the "People" section, so every employee feels connected to the vision and direction of the company.

Did I Have a Great Day or Week?

Every member of the team, from the senior leadership to staffers, needs to be able to answer objectively the question, "Did I have a great day or week?" The key: Each person must report on *one or two KPIs weekly.*



Australia-based Shine Lawyers has five measurable goals. All employees in the business have the same goals, with their corresponding KPIs changing depending on their role. "We get alignment this way," shares Managing Director Simon Morrison. "And when you go into anyone's office, you'll see their five goals." Shine creates a strategy card for each of the five goals and their corresponding KPIs. "Previously we counted 30 different reports that we were sending our managers, so this is a nice, compact way to align everyone's goal to the same tool to manage the business," he adds.

Some companies use a whiteboard that gets updated daily or weekly (and discussed at meetings), and some print charts from spreadsheets and post them on the wall. Still others have dashboard systems, like Align, to automatically generate live data. You will succeed only if every team member in your company looks at the information and makes adjustments or decisions based on their KPIs weekly.

The most respected leaders of some of the largest companies do the same. A *Bloomberg Businessweek* article titled "The Happiest Man in Detroit," by Keith Naughton, highlights former Ford Motor CEO Alan Mulally and his weekly 2½-hour Business Plan Reviews with the 15 top Ford executives. In this meeting, Mulally's direct reports were required to "post more than 300 charts, each of them color-coded red, yellow, or green to indicate problems, caution, or progress." There was no hiding from data with Mulally at the helm. As he said: "You can't manage a secret. When you do this every week, you can't hide." Clearly, the charts were telling the truth, and through this rigorous discipline, Mulally and the leadership team drove changes that without a doubt drove profits.

One Critical Number and 3 to 5 Rocks

Everyone is busy. The magic of the Scaling Up process is getting everyone in the company to accomplish one additional thing that is aligned with the company's focus every 90 days (i.e., *each employee has one Critical Number that aligns with the company's Critical Number for the quarter, illustrating that there is a clear line of sight)*. If you have 10 employees, you can get 10 more things accomplished; if you have 1,000 employees, you can get even more done.

And like the company, all employees or teams need to set a handful of priorities (known as rocks) that will help them achieve their Critical Number (i.e., *each individual/team should have three to five rocks that align with those of the company)*.

AmRest Holdings SE, an international restaurant company based in Poland, uses a scorecard system across the whole company called its Disciplined Operating System (DOS+). The scorecards are integrated with the company's One-Page Strategic Plan (OPSP), giving everyone insight into exactly how the company is performing against its KPIs, which span financial, people, and customer metrics. DOS starts at the restaurant level by the 2nd of each month and then rolls up to the regional level, district level, brand president, and division president before the scorecards come to co-founder and Chairman Henry McGovern by the 7th of each month. Go to *scalingup.com* to see some of these scorecards.

Peer Coach

All executives and middle managers should have a coach (or peer coach) holding them accountable for behavioral changes. We strongly encourage companies to get an external coach (ideally, a Gazelles International Certified Coach) to lead their quarterly and annual planning sessions, and check in monthly to monitor progress.

Everyone should find a peer coach internally at the company, too. Based on your own column 7 of the OPSP and decisions you made on your own One-Page Personal Plan (discussed in "The Leaders" chapter), choose five behaviors or actions you need to start or stop, and then report your progress each day to your peer coach. For more details, search for "Marshall Goldsmith peer coach" on the Web, and you'll find a free document that further details the process. We also have the link on *scalingup.com.*

Rockefeller Habit #10: Scoreboards Everywhere

10. The company's plans and performance are visible to everyone.

- ☐ A "situation room" is established for weekly meetings (physical or virtual).
- ☐ Core Values, Purpose and Priorities are posted throughout the company.
- ☐ Scoreboards are up everywhere displaying current progress on KPIs and Critical Numbers.
- ☐ There is a system in place for tracking and managing the cascading Priorities and KPIs.

We're not big on using sports analogies in business books. In sports, the team gets to practice 90% of the time and perform 10%. In business, it's the opposite: We're lucky if we get 10% of the time to practice through executive training and development.

However, we can all take a page from sport facilities. Even if you're seated in the nosebleed section of a stadium and can barely see the action on the field, you can always see the score. And now that everything has gone mobile, the real-time digital scoreboards available to anyone following her favorite team and sport should be the standards by which we monitor our own company performance.

Here's a photo of the digital scoreboard at Australian experience-gifts retailer RedBalloon, one of several visible to everyone in the company and updated in real time. We like how it is made to look like an old-fashioned set of paper charts, though this is all displayed on a large flat-screen monitor.

At a minimum, have your metrics, goals, and plans up big and visible in a place where you host the various weekly meetings (i.e., *establish a "situation room" for weekly meetings, whether they're physical or virtual. In the case of a virtual meeting, the "room" might be a particular conference line).*

Here's what the meeting room looks like at The Miner Corporation, a Texas-based company serving the warehousing and materials-management industries — including a bigger-than-life printout of its OPSP.

Make sure that the *Core Values, Purpose, and Priorities are posted throughout the company.* At Ezypay, Australia's largest direct-debit service provider, Core Values are displayed on walls around the office — in some cases from floor to ceiling, including in the boardroom.

To support daily meetings in its head office, Gung Ho! Pizza created a "situation room" that has all the key elements of its culture, Purpose, and KPIs visible for everyone to see.

Also, highly visible on a wall in the back of each location are these same key elements of the situation room — including the OPSP — distilled down to the store level for frontline teams to see.

Jade Gray and John O'Loghlen, co-founders of Gung Ho! Pizza, are building a franchise model. Making it simple for employees in the stores to see the same information as employees at headquarters is essential to building engagement. "We have numerous locations, and employees don't always have a chance to come to the head office," says Gray. "Everyone from our cleaner to our store manager can look at the wall [in their store] at the start of each daily meeting. This ensures we are aligned. I can walk into a store and speak with a cleaner and nine times out of 10, he or she can tell me what the Purpose of the company is and give me the meaning behind it and why we're in business. How to align the entire team is the biggest thing this methodology has taught me."

Accountability Management Systems

At some point, when the company is bigger than 50 employees and expanding into multiple locations, keeping track of all the cascading priorities, metrics, and data can become an Excel-spreadsheet nightmare. And as a growing company must continue to upgrade its accounting, CRM, and operational systems, it is important to *have a system in place for tracking and managing the cascading Priorities and KPIs.*

There are several software-as-a-service offerings that give you the capability to update your OPSP online and track all the KPIs and Priorities that arise from a disciplined execution process — and track via your smartphones and tablets. Gazelles has outstanding offerings, one being Alignwithgazelles.com, which gives you the capability to update your OPSP online and track all the KPI's and Priorities that arise from a disciplined execution process — and track via your smartphones and tablets.

Having a single place to house all of this very important data, not only makes your business run more efficiently, but your team as a whole will have much greater transparency and alignment to the big company objectives that you set.

The end goal is to keep the output from the Growth Tools top-of-mind, like the score of your favorite individual athlete or team.

In the final chapter of the "Execution" section, we outline a set of meeting rhythms that give everyone a routine through which all the input, data, and metrics can be discussed and debated, and decisions can be made.

11

THE MEETING RHYTHM
The Heartbeat of the Organization

EXECUTIVE SUMMARY: *To move faster, pulse faster. At the heart of a team's performance is a rhythm of well-run daily, weekly, monthly, quarterly, and annual meetings. These meetings bring focus and alignment, provide an opportunity to solve problems more quickly, and ultimately save time. They also address the #1 challenge people face when they work together: communications. In this chapter, we outline specific agendas and recommendations on who should attend meetings. The monthly meeting is a KEY routine for developing middle managers into mini-CEOs so they are capable of running the business (execution), freeing up senior leaders to focus on strategy. We'll also look at the #1 roadblock to effective meetings: generalities.*

Reading *Titan: The Life of John D. Rockefeller, Sr.*, by Ron Chernow, Verne was struck by the magnate's daily luncheon routine. Each day, without fail, he'd sit down with his key people, have lunch, and talk with them. At first, the meetings included only Rockefeller and the four co-founders of Standard Oil. But as the decades wore on and the company grew, the meetings came to include Rockefeller's nine directors. And yes, they continued to meet daily.

A century later, Steve Jobs repeated the same ritual, having lunch almost every day with Apple design genius Jonathan Ive. Octogenarian investor T. Boone Pickens credits a routine of daily strategy meetings, including breakfast each morning with his team, for turning $2.7 million into billions.

Consciously or not, these leaders understood the root meaning of the word *company:* "to share bread." By gathering their team each day for a meal, they strengthened their personal and professional relationships. Fortified for another day, each could go out and do his share to conquer his industry or whatever the current target might be. Did it matter that the meetings occurred daily? No doubt Rockefeller and Jobs would have said an emphatic "Yes!"

And the benefits? "We all know each other very well," said Pickens, commenting about his team in an interview honoring him as *D CEO's* CEO of the Year at age 85. "We shouldn't make many mistakes, and we don't make many." Communicating frequently and breaking bread together assure that this is the case.

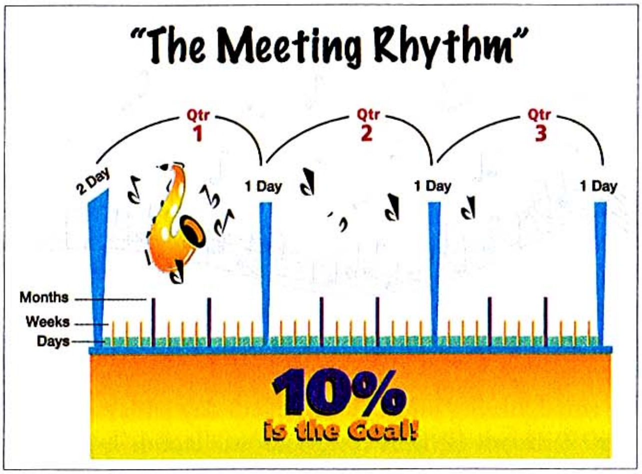
Great Music vs. Noise

Great growth firms are a lot like great jazz bands. While jazz is improvisational and entrepreneurial-like, the discipline underlying it allows even musicians who have never played together before to perform a rocking jam session. This requires four things:

1. **Assembling talented musicians:** They play a variety of instruments, creating a unique sound.
2. **Knowing the rules:** All jazz musicians must master a handful of fundamentals (the Core).
3. **Performing the same song:** This is the equivalent of the One-Page Strategic Plan (OPSP).
4. **Playing to the same beat:** What the drummer communicates to the band, the meeting rhythm does for the organization (alignment).

All of this structure allows for constant and endless improvisation by each player, which is what makes jazz unique and powerful. Imagine if all members of your team could independently and confidently wing it in their roles in a way you knew would be consistent with the company culture and objectives.

Yet playing jazz isn't easy. Great jazz bands just make it look that way. The same goes for great companies. Exceptional firms produce something beautiful, and the rest just make a bunch of noise.



The "People" and "Strategy" sections of this book touch on the jazz band equivalents of the first three factors listed above: including A Players, relying on the Core, and getting everyone on the same page (using the OPSP). This chapter addresses the all-important drumbeat of the organization. And it is a rhythm of communication that drives alignment throughout the organization — a steady day-day-day-day-week, day-day-day-day-week, day-day-day-day-week, day-day-day-day-month. (We'll spare you the entire year!)

Regular meetings act as place holders in everyone's calendar. Because it often takes longer to set up meetings than it does to hold them, pre scheduling reduces hassles in organizing them. Most matters can wait for the daily huddle or the weekly meeting. Bigger issues, which necessitate getting everyone in a room for a few hours, can be addressed during the monthly management meeting.

In the best-run global companies, the CEO's calendar is preprogrammed 200+ days of the year. For a glimpse into these meeting rhythm disciplines, read Chapter 11 on meetings in *Managing Up: How to Forge an Effective Relationship With Those Above You*, by Rosanne Badowski. She is Jack Welch's longstanding executive assistant and has written a book that we highly recommend all executive assistants read. Welch, former CEO of General Electric, had his calendar of meetings planned a year in advance, including the one day each month he spent teaching and learning at Crotonville, GE's executive training center.

As the diagram above indicates, this rhythm of meetings shouldn't require more than 10% of a standard 40-, 50-, or 60-hour workweek for the senior leadership; 5% to 7% for middle managers, and 3% for frontline staff. Naturally, there will be other meetings — with customers, suppliers, investors, etc. (which is why Welch had so many meetings) — but this daily, weekly, monthly, quarterly, and yearly rhythm of meetings is sufficient to manage the business.

More Frequent Meetings

Many companies have quarterly and annual meetings. In our methodology, the key agenda for these meetings is updating the Growth Tools, including the OPSP.

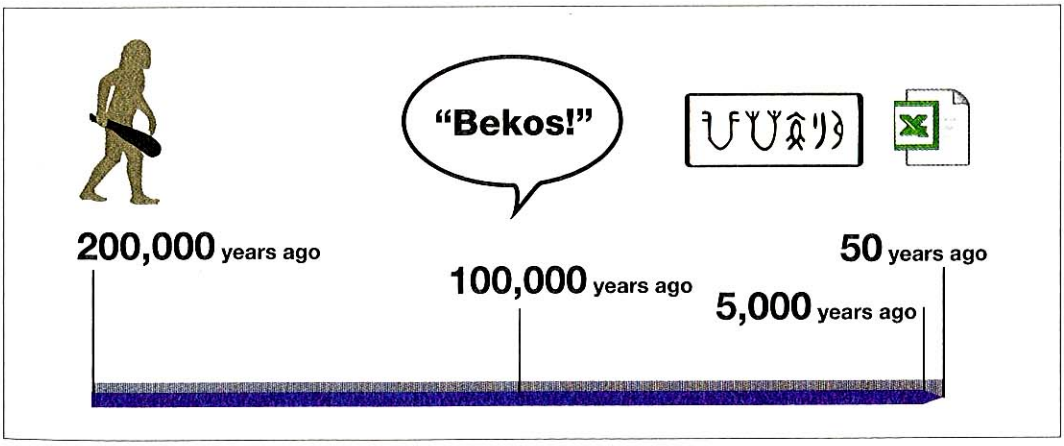
Having more frequent routines makes it easier to attain goals. This is why the daily, weekly, and monthly meetings are critical. They drive the deliverables outlined in the less frequent meetings, with each meeting building upon the next. Plus, teams need regular, face-to-face huddles to discuss new opportunities, strategic concerns, and bottlenecks as they arise. How many hours is it going to take to hammer out a set of goals for a new year, if the annual meeting is the first time anybody has talked about where the market is going or dealt with the tactical issues that come up weekly?

Competing on Internet Time

The faster you're growing, the faster your meeting rhythm should pulse. In general, if you're growing less than 15% per year, you can treat each year like a year from a strategic-thinking standpoint. If you're growing 20% to 100% a year, view each *quarter* as if it were a year. That means possibly adjusting your strategy every 90 days. If you're among the elite, more than doubling your revenue each year, you're living the equivalent of "dog years" and need to treat each *month* as if it were a year. For more discussion on this hyperpulsing style of management, read the seminal book *Competing on Internet Time: Lessons From Netscape and Its Battle With Microsoft* by Michael A. Cusumano and David B. Yoffie.

A Case for More Storytelling

Before digging into the specifics of meeting rhythms, let us make a case for upping the overall talk time in organizations. To do this, we need to go back in time. It's estimated that humans have been around for 200,000 years, the spoken word for 100,000, the written word for just over 5,000 years, and electronic spreadsheets for less than 50!



Two things have been crucial to humans' survival. One is pattern recognition, the most important cognitive skill connected to extreme success in any field. The other is hearing. You can hear prey long before you can see, touch, or taste it (or it tastes you!). Hearing stories, information, and even numbers connects more deeply to our pattern-recognition capabilities than staring at Excel spreadsheets.

On the flip side, brain-wave scans show that we need to talk out our problems. When we speak, the prefrontal cortex of our brain — the source of executive and cognitive power — lights up like a Christmas tree. It's this power that members of the Young Presidents' Organization, Entrepreneurs' Organization, Vistage, and other CEO organizations experience in their monthly forums (confidential meetings of eight to 10 leaders free to talk about anything). Ninety percent of the benefit is the chance members get to speak about the deeper challenges or bigger opportunities facing them.

Walk-and-Talks

"Walk-and-talks" became a favorite problem-solving technique of Steve Jobs. Science backs up the power of this simple routine. It's rooted in the same principles that underlie Eye Movement Desensitization and Reprocessing, a new therapy successful in helping people who suffer from trauma, anxiety, panic, disturbing memories, post-traumatic stress and many other emotional problems. It involves the bilateral stimulation of both sides of the brain by moving the eyes left and right repeatedly. (If you catch yourself bouncing your legs when stressed, it's the same mechanism). Walking is found to have a similar calming effect that brings the brain down from an agitated beta state to a more focused and calm alpha state. Combine walking with talking, something Jobs and Rockefeller did a lot of, and you have a powerful cognitive tool at your disposal.

Since the advent of texting, speaking has gone out of style. It is coming back with technologies like Siri and Cortana, that are getting us engaged once again in talking (and hearing) — which our brain loves!

Three Powerful Advantages to Meeting Regularly

The two main arguments we hear for not meeting regularly, especially for the daily huddle:

1. We don't have the time.
2. We see each other all day anyway.

To address the time issue: If your meetings follow our agendas, they save time. If you need a colleague's input to answer a customer's question, you don't have to tell the caller, "I'll try to find her and get back to you sometime today." You can name the time, because you know you'll have the answer by the end of your daily (or weekly) meeting. Nor will you be going over the same water-cooler conversation three or four times, as is the case when you rely on chance hallway meetings for communication. Because everyone is together in a daily meeting, things get communicated quickly and accurately.

As for the second point: Bumping into each other all day doesn't substitute for tightly focused team discussions. And a lot of that bumping is causing unnecessary interruptions. Casual encounters fail to take advantage of the three most powerful tools a leader has in getting team performance:

1. **Peer pressure**
2. **Collective intelligence**
3. **Clear communication**

By holding one-on-one conversations with their team members in lieu of a weekly meeting, leaders lose these advantages. Unless these individual sessions are for coaching, there can be a lot of private negotiating going on ("You know what I'm up against. ..."), putting the leader in the constant position of being the bad guy.

Meeting as a group, in contrast, takes the heat off the leader and creates peer pressure that increases the rate of deliverables. What a shame to have a high-powered executive or middle-management team that doesn't take even 15 minutes each day or an hour a week to focus its collective intelligence on the opportunities at hand. Last, holding a team meeting means that everyone is hearing the same information. You don't have to repeat the same message three or four times in one-on-ones or casual conversations.

Let's look more closely at the specific meetings and agendas that drive alignment and communication — Rockefeller Habit #3.

Rockefeller Habit #3: Meeting Rhythm

3. Communication rhythm is established and information moves through organization accurately and quickly.

- ☐ All employees are in a daily huddle that lasts less than 15 minutes.
- ☐ All teams have a weekly meeting.
- ☐ The executive and middle managers meet for a day of learning, resolving big issues, and DNA transfer each month.
- ☐ Quarterly and annually, the executive and middle managers meet offsite to work on the 4 Decisions.

This rhythm of meetings is designed to support cascading communication around the priorities and metrics-driving strategy. Specifically:

1. **The daily huddle.** A 5- to 15-minute meeting to discuss tactical issues and provide updates. This will help you avoid minor train wrecks and to take quick advantage of unforeseen opportunities. Normally, a daily huddle saves everyone an hour or so of needless email updates and ad hoc interruptions. Issues that emerge drive the main topics for the weekly meeting.
2. **The weekly meeting.** A 60- to 90-minute discussion to review progress on the quarterly priorities and tap the collective brainpower of the team in addressing one or two main topics. This meeting also provides a time to discuss the market intelligence gathered that week from customers, employees, and competitors. Repeated patterns of discussion determine the one or two main issues for the monthly meeting.

3. **The monthly management meeting.** A half- to full-day meeting, in which all senior, middle, and frontline managers come together to learn and collaboratively address one or two big issues requiring several hours of effort. It's also designed to transfer DNA (knowledge, values, approach) from upper to middle management.
4. **The quarterly and annual planning meetings.** At this one- to three-day offsite meeting, leaders update the Growth Tools and establish the next quarterly and/or annual theme. Once each quarter, the leadership team shares an update of the new plans with all employees in a 45-minute meeting.

NOTE: *Examine the meeting rhythm above in reverse order to see how the more frequent gatherings draw context and continuity from the longer and more strategic planning sessions. Specifically:*

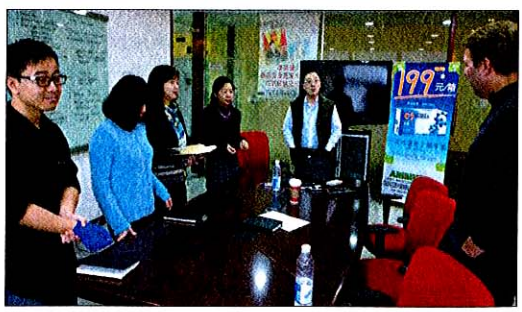
- *The annual sets the strategic direction and priorities for the year and beyond.*
- *The quarterly breaks these longer-term priorities into bite-sized priorities that the company can digest.*
- *The monthly addresses the bigger issues or opportunities that surface around the strategic direction.*
- *The weekly keeps the priorities top-of-mind and drives discussions around input from customers, employees, and competitors, which feeds back into the quarterly and annual planning processes.*
- *The daily huddle tracks progress and brings out sticking points that are blocking execution of the strategic direction.*

Let's take a look at each type of meeting in more depth, examining the structure, timing, and agenda. Equally important, we'll look at why these meetings often fail and discuss how to avoid the pitfalls.

The Daily Huddle

When Verne labeled the daily huddle an absolute necessity in *Mastering the Rockefeller Habits,* it was because only a few companies were utilizing this important routine. Today, tens of thousands of companies around the world have discovered the freedom and power that comes from implementing this simple rhythm. You even see the daily huddle in best practices like the iterative agile software development framework called Scrum.

In some cultures, issues of saving face make it difficult to share the brutal facts (e.g., the "stucks" mentioned in the daily huddle agenda below). With the help of our coaching partners in Asia and the role modeling of pioneering firms like Ammex Corp. in Shanghai, the daily huddle is now a given in organizations that are serious about making the process of scaling up faster and easier.



Ammex CEO Fred Crosetto's daily huddle with his senior team.

What Kills the Daily — and Most — Meetings?

If the daily huddle is so powerful, why do organizations start and then stop it? In a word, generalities! As teams tell stories and share information, it's critical that they include specifics. We need to hear names, numbers, dates, issues, and concerns if our brain is going to make the kinds of connections that make this process powerful. For instance, if one colleague asks, "What's up tomorrow?" a response like, "I have a meeting with a client" is too vague. More specific and useful is, "I'm meeting with Acme CEO Bob Smith at 10 a.m. to discuss co-hosting a 60-person 'Mastering the Rockefeller Habits' workshop in Cincinnati in the middle of November." These details, which take only a few additional seconds to share, let your team compare this data with information in their own heads:

- Acme is still around and based in Cincinnati — I thought Columbus.
- Bob is still CEO of Acme.
- I might want to participate in the 10 a.m. discussion.
- Is 60 the right number of participants? I thought we agreed on 80.
- Does the middle of November work, given our other commitments?

Timing — Set the start of the daily huddle at an odd time, like 8:08 or 16:16. People are more likely to be on time than if you schedule the meeting on the quarter-hour or half-hour. And start the meeting on time, whether everyone is present or not. You don't have a lot of time to waste, and it's important to set that tone from the beginning. It's also important to end on time, not letting the meeting run longer than 15 minutes, or people will drop the habit. We suggest setting a timer for the first few weeks of meetings and ending on time even if the agenda isn't complete. Team members will learn to get to the point and move on to the next item. Plan 1 minute per person, meaning that an eight-person team should expect an eight-minute daily huddle. Time of day? Doesn't matter. Choose whatever time best fits the rhythm of the business.

Setting — Meet wherever you want, but stand up or perch on stools. It'll help keep the meeting short. Gathering in the leader's office makes it more convenient for him or her. If some people will dial in regularly, put everyone on a conference call. There's nothing worse than having a few people huddled around a speaker phone every day. We also recommend *against* using videoconferencing, which adds one more level of technology complexity. The exceptions are fixed-based operations that communicate every day. RS Software uses teleconferencing to host its daily standup meeting across 12½ time zones between its offices in Kolkata and Milpitas, California.

Who Attends — The general rule is to have more people in fewer meetings, rather than fewer people in more meetings. That's true even if only 10 to 15 participants do most of the sharing. At Microsoft, daily meetings can host up to 60 developers, though only 20 gather in a conference room and the rest attend via the videoconferencing tool NetMeeting when working on a new software release. The Ritz-Carlton gathers about 80 people at headquarters for a 10-minute Daily Line-Up to receive updates from Boston to Bali. Meanwhile, all 35,000 Ritz-Carlton employees participate in some kind of Daily Line-Up at their local hotels. (A great deal has been written about their Line-Ups. It is worth searching for information online.) In general, frontline employees will be in only one daily huddle, and anyone in management will be in two: one with their direct reports and one with their peers and leader.

HINT: *Daily huddles keep projects between companies/suppliers/customers on time and on budget. Let's say you're working with an IT service provider to install a new CRM system, or with a construction company to build a new facility. Choose someone from your team to interface with a contact on the supplier's team and walk through the same three agenda items listed below. This will keep communication flowing and guarantee your project will get more attention and action.*

WARNING: *We had a client implement daily huddles associated with half a dozen internal projects. The problem: The project teams shared many of the same members, so individuals found themselves in three to five daily huddles, which is unworkable. The solution was to host one daily huddle involving all team members associated with the projects. Only the project leads provide updates (covering six projects in six minutes), and then team members spend the balance of the 15 minutes self-organizing into ad hoc groups to discuss items of interest. This gathering gave everyone a nice 15-minute break from the daily routine and provided the time and place where people could catch up with each other without having to track down and interrupt colleagues the rest of the day.*

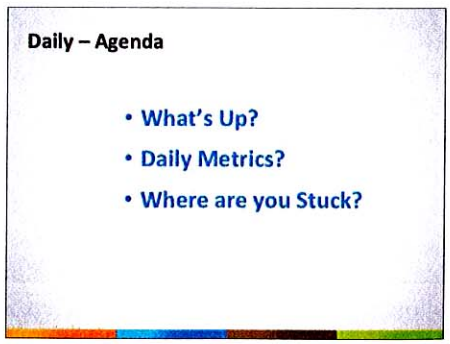
Who Runs the Meeting — Pick someone who is naturally structured and disciplined (that might not be the CEO) to keep meetings running on time. The leader should use a countdown stopwatch to make sure that no part of the agenda runs away with the meeting. The person running the meeting also has the important job of saying, "Please take it offline" whenever people get off on a tangent that doesn't require everybody's attention.

The Agenda — The agenda should be the same every day, and it's just three items long, with five minutes maximum per item:

1. What's up (in the next 24 hours)?
2. What are the daily metrics? (All companies should have some.)
3. Where are you stuck (constrained)?

Some teams will mention significant results from the previous day. The Ritz-Carlton and Towne Park, a hotel parking service headquartered in Maryland, review one of their Daily Basics during the daily huddle. Don't pile too much into the daily huddle, or it's going to extend past the 15-minute limit and people will start to resent the meeting.

WARNING: *Avoid checking up on whether someone did something the previous day. Team members will start feeling like they are being micromanaged. In general, looking forward is great management; looking backward is micromanagement.*



Expanding upon the agenda:

What's up: In the first five minutes, each attendee spends a few seconds (up to 30) sharing very *specifically* what's up in the next 24 hours (between today's huddle and tomorrow's). The idea is to let people detect conflicts, crossed agendas, and missed opportunities immediately. These updates should relate to key activities, meetings, decisions, etc., and should NOT be a recitation of someone's daily calendar in 15-minute increments! Team members at Monday's huddle don't need to hear about the sales meeting that happens every Tuesday morning unless there's something unusual or critical coming up.

Daily metrics: The next five minutes are spent verbalizing the daily metrics that the company monitors: website hits, open positions, proposals submitted, daily sales, cash, workplace accidents, number of consultants deployed, etc. Remember, you're looking for patterns and trends. Since it generally takes six data points to constitute a trend, it's going to take months to see patterns if you look at metrics only every 30 days. If you meet once a day, you'll have a jump on the competition and on your own challenges. We know you may be getting this data in written form. Verbalizing it makes it more visceral for the person sharing, while, in turn, hearing it makes it easier for the team to absorb. The more senses are engaged, the better your team's ability to pick up trends and patterns.

Stucks/Constraints: This is the most important agenda item. You want members of the team to bring up constraints and concerns that could prevent them from having a great next 24 hours (i.e., What's the rock in their shoe? What's keeping them awake at night or worrying them? Are they stuck because of another team member?) The brutal facts need to be shared, and the leader needs to see the patterns of "stucks" to understand what underlying issues must be addressed.

There are a couple of reasons why we consider this last part of the agenda crucial. First, there's something powerful in simply verbalizing — for the whole group to hear — your fears, your struggles, and your concerns. It's the first step in solving the problem, because until the mouth starts moving, the brain won't engage. Second, you want to focus your team's energy on breaking through constraints.

NOTE: *Team members should share a "stuck" even if they don't think there's anyone on the team who can help them resolve it. Verbalizing the issue is likely to spur unexpected action to help them.*

WARNING: *Anytime somebody goes two days without reporting a constraint, you can bet there's a bigger problem lurking. Busy, productive people who are doing anything of consequence get stuck pretty regularly. The only people who don't get stuck are those who aren't doing anything or are so stuck that don't know it!! So, challenge the team member who reports, "Everything is fine!"*

WARNING: *Important as they are, conversations about bottlenecks shouldn't be allowed to drift into problem-solving. It's okay if somebody wants to reply to a "stuck" by saying, "Call so-and-so," or, "I'll get on that right away" (if he or she is the "stuck"!), but take anything more than that offline. Remember: The daily meeting needs to be kept short.*

The Weekly Meeting

If the daily huddles are functioning well, they will lead to immediate action on scores of issues that would otherwise clog up the weekly meeting. You don't want to spend the weekly meeting poring over updates. Everyone should be well-informed via the daily huddles. You also don't want to address the dozens of issues that have accumulated over the week. The idea of the weekly meeting is to keep everyone laser-focused on the #1 priority — and the big rocks supporting that mission. You want to tap the collective intelligence of the team for 30 to 60 minutes on one or two important topics. This affords the group an opportunity to resolve 50 to 100 important things in a year.

HINT: *Does your organization spread out its functional meetings throughout the week, thinking that it's best not to take up too much of any one day? If so, let us suggest that you do just the opposite. Pick one morning or afternoon, and host ALL of your functional and project meetings back-to-back. This allows everyone to get in a meeting mindset and flow, and frees senior management to spend the rest of the week out in the marketplace. We picked up this idea from Rick Kay and his team at OTG Software.*

Kay and three colleagues launched the software company in 1992 and grew it through the '90s. They took it public in 2000, sold it to Legato Systems for $403 million in 2002, and stayed on until Legato was sold to EMC a year later for $1.4 billion, resulting in a nice double payout to Kay and his team.

Kay's weekly meeting rhythm started Monday morning at 7 a.m., when he hosted a breakfast meeting with the three senior executives who helped him launch the company. This was Kay's "council" meeting. The foursome chalked up significant talk time around the challenges and opportunities facing the growing company.

At 8 a.m., the rest of the senior team, along with Kay's assistant Andy Cleary, joined the meeting for a one-hour meeting of the executive team. At the end, Cleary would summarize "Who's going to do What, When." These were very action-oriented meetings focused on addressing key issues and making decisions, not mind-numbing reviews.

We will illustrate next the real meeting innovation, which we have shared with thousands of other firms. Whereas most companies spread their functional meetings throughout the week, Kay's team concentrated them all in one morning. From 9 a.m. to noon, the entire senior management team of eight stayed for a series of functional meetings. The complete agenda:

7 a.m. - 8 a.m.: Breakfast meeting

8 a.m. - 9 a.m.: Executive team

9 a.m. - 10 a.m.: Sales and marketing

10 a.m. - 11 a.m.: Software development

11 a.m. - 12 p.m.: Accounting and finance

This afforded middle and frontline teams direct access to the entire senior leadership team. (The company had roughly 400 employees around the time Verne was working with it, just before and just after its IPO.)

Imagine the power to resolve dozens of issues right on the spot. If a press release needed approval, everyone (including the CFO, the VP of sales, and the software development and marketing chiefs) was there to review and resolve it in minutes. It didn't float around in emails for days, sucking up hours of management's time. If Sales was having a problem with the CRM system, the head of IT was there. If Development needed to hire additional programmers, the head of HR and the CFO were there to start the process and sign off on the budget.

In fact, Kay had a rule: Do not email big files (or links to websites, as in "When you have time, please look over these updates to the software interface"). Instead, the company gave team members time in the meetings to pull up a website or read through a contract, as Jeff Bezos allows at Amazon's weekly meetings. This gave people time to review and respond in a dynamic, synchronous fashion, with Kay pushing for decisions rather than defaulting to a follow-on meeting. And at the end of each functional meeting, Kay's assistant would summarize the "Who, What, When," so the entire company was clear on the functional priorities for the week.

At noon, everyone headed for lunch and in some cases to the airport, interacting in the market for the balance of the week with no other management meetings (except their daily check-in). This meeting rhythm resulted in more decisions and more real work accomplished in half a day than most senior teams get done in weeks or months. And although OTG's customers were unable to reach senior leaders during those Monday-morning meetings, they found management unusually available the rest of the week. We highly recommend that you adopt this best practice, dedicating several hours a week to get in the flow and work on the business, project by project, function by function. Then you're finished except for a daily, 15-minute touch point.

When it was time for the daylong monthly meeting, OTG held these on Mondays, combining its weekly and monthly activities. The same held true for the quarterly and annual meetings, each of which consumed a Monday as well. Mondays were meeting day, like Fridays are for FedEx and Wal-Mart.

The Schedule — Schedule the meeting for the same time, same place each week. Set aside 30 minutes for frontline employees, 60 to 90 minutes for middle and executive teams. Since the Gazelles team is spread across 12½ time zones, from Hyderabad to Portland, Oregon, our several hours of meetings on Mondays are held via conference call. It works.

Let's look at the suggested agenda for a weekly team meeting:

The Agenda

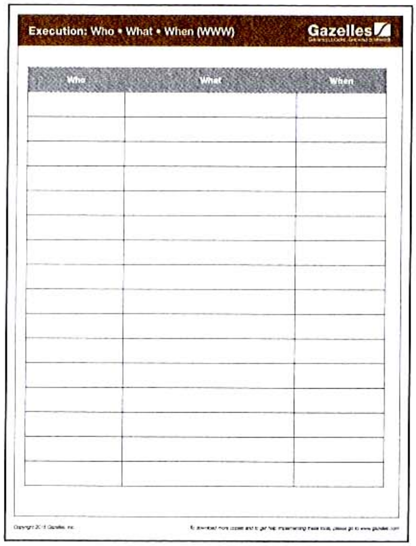
Five minutes: Good news. Start each weekly meeting with five minutes of good news, both personal and professional. Sharing professional good news creates a positive start to the meeting and helps generate momentum — good news begets good news. The personal good news keeps the team connected at a human level, lets everyone express gratitude, and normally results in a good belly laugh or two. Laughter releases tension and brings the brain down into a better alpha state, preparing the team to tackle the important issues and decisions for the week. This important routine also serves as a mental health check. If someone has gone a couple of weeks without sharing specific good news, the leader should inquire privately to see if everything is okay.

10 minutes: The priorities. Review the status of the Red, Green, and Super Green priorities (discussed in "The Priority" chapter) and discuss any gaps in progress. Also review any metrics not reported in the daily huddles.

10 minutes: Customer and employee feedback. Spend this time reviewing specific feedback from customers and employees. What issues are cropping up day after day? What are people hearing?

NOTE: *Draw a line in your mind. This first 25 minutes warms up the brain and allows you to share enough internal and external data to help the team see patterns and trends in the performance of the company. The next 35 to 65 minutes are designated for putting the team's collective intelligence to work and making important decisions.*

30 to 60 minutes: One or two topics. Focus the team's undivided attention and collective intelligence on a key topic or two. Base your choice on the patterns and trends from the daily huddles, progress on your priorities/theme, feedback from your employees and customers, and the opportunities and challenges that have surfaced. If a firm wants to discuss a potential partnership, schedule it for this time. If a major event is coming up and you need some decisions made, give it priority. At Gazelles, Verne sometimes knows the topic well in advance. Other times, he emails an agenda the night before, or the issue surfaces during the meeting. If you have a handful of priorities for the quarter, the weekly meeting affords you an opportunity to review each a couple of times each quarter.


Execution: Who • What • When (WWW) Gazelles

Who	What	When

Who, What, When (WWW). Take a couple of minutes to summarize "Who said they are going to do What, and When," and email the notes to everyone.

One-phrase close. End your weekly meeting by asking each attendee to sum up with a word or phrase of reaction. It creates a formal closing for the meeting, ensures that everyone's had a chance to say something, and gives you a window into what people are thinking and feeling. If you find there are lingering issues or conflicts, you can follow up.

HINT: *It's ideal if the series of weekly meetings ends before lunch (like OTG's) or happy hour, so the executives can have a more informal setting in which to discuss issues that surface during the structured part of the meetings. That informal time is often when real decisions are fleshed out.*

HINT: *For those of you who participate in some kind of CEO forum, the weekly meeting is structured a lot like a mini-forum meeting, with a formal check-in, updates, forum topic, and one-phrase close.*

Weekly CEO One-Pager

Many CEOs also send out a weekly one-pager to all employees updating them on the status of the #1 priority and other significant developments inside the company and the industry. Employees want to hear from their top leader and appreciate the sense of being on the inside provided by this kind of report.

The Monthly Management Meeting

You can tell a great company from a good company by spending just a few minutes inside of the business. In good companies, you'll find the senior team stressed out and overworked from the crush of ever-increasing demands, while the rest of the team seems oblivious to the challenges facing the firm.

In great companies, you find just the opposite: a senior team that's rested and relaxed while the balance of the staff is on fire as they work to capitalize on the ever-increasing opportunities facing the business. We may be exaggerating somewhat, but not by much.

Unless the senior team instills its DNA— namely, the knowledge and values required to make good decisions — in everyone from the middle managers on down, the top leaders will find themselves increasingly overwhelmed by the demands of a growing business.

Doing this requires one simple routine: a well-structured, one-day monthly management meeting that includes everyone who supervises or manages anyone in the business. It should be a day focused on learning, sharing, and problem-solving vs. a day of mind-numbing reports. Do anything short of hosting this meeting, and the business will ultimately outgrow its middle management. And few things are more painful than seeing a business leave loyal people behind.

Lessons From India

Nowhere is the need to develop middle management more apparent than in India. And it was a particular challenge for Ashiana Housing Ltd., a 480-employee (and 2,500-contractor) New Delhi-based firm, one of 39 Indian companies named to the *Forbes* list of "Asia's 200 Best Under a Billion" in 2010 and one of 35 in 2011. When Verne first met Managing Director Vishal Gupta and his two brothers, who run the construction company founded by their father, they were stressed out over their ever-expanding company, which had five major projects spread throughout northern India. In turn, their middle-management team was relaxed and relatively unaware of the challenges facing the company.

7% of Management Compensation

To rectify this problem, we strongly recommended that they initiate a monthly management meeting, bringing together all 70 managers from around India for a day of learning and development. Given

India's infrastructure and transportation challenges, it was difficult for Gupta to imagine finding a day each month when all the senior and middle managers could meet. Plus, how could they pull these leaders out of the field for a day, given the company's growth rate and the crush of work? (Rick Kay had the same concern when Verne pushed OTG Software to do the same for its 40 middle managers spread throughout the US.)

There was also a concern about the cost of hosting such a meeting. Figuring on an average cost of 5% of management compensation to host a year of one-day monthly meetings, Ashiana Housing ended up having to spend 7%. Yet the first few monthly meetings generated tangible results that paid for the next 10 years of management meetings. Three key outcomes the first year:

1. **Revenue tripled.** During the first monthly meeting, the team tackled a huge issue: sales conversions. The market for housing, even in India, had slowed down in 2009, so the company wanted to boost business. The challenge wasn't getting traffic to its developments; it was converting visitors into customers.

   After the 70 leaders discussed the issue for several hours, the big idea that emerged was creating a wow factor at each of its locations, requiring coordination of the construction and maintenance teams. In addition, the team decided to provide customer-service training to guards greeting potential customers and to increase the number of signs directing customers to the sales and rental offices. All activities could be implemented immediately because the entire middle-management team was part of creating the solution.

   The result? Monthly sales tripled by the end of the year and have been high ever since.

2. **Huge time savings.** Ashiana hosts a show-and-tell session during these monthly management meetings in which teams from both construction and maintenance highlight a best practice from the previous month. In one case, the company's new construction team in Pune had created a way to construct a kitchen in six to seven fewer days and for slightly less money.

   Immediately, the construction teams at four other locations implemented these best practices. Cutting down construction time by a week improves cash flow and speeds sales — a big win that provides huge returns from the company's monthly investment.

3. **Breaking down barriers.** Pulling all 70 managers together forged stronger relationships across functions and business operations. For instance, accounting now understands better some of the challenges maintenance faces. In turn, having all 70 together creates positive peer pressure, as managers share "their number" at the beginning of the meeting Friday evening. Today, 100% of the 70 managers have one key performance indicator that definitively measures whether they've had a successful month or not.

   Within the first year, because of the formal and informal training and development that occurred during these meetings, the 70 middle managers were able to step up and run the day-to-day operations of the business. That leaves the three brothers more time to focus on the market-facing activities, like land acquisition, that continue to propel Ashiana Housing ahead of its competition.

Four years later (at the time of this book's publication), the monthly meetings are still being held; the middle managers act as mini-CEOs in running the business; and the three brothers are more relaxed than they've ever been and are planning for the future. From a performance standpoint, during this same period, Ashiana Housing's stock has risen over 250% while direct competitors' stocks have stagnated.

For your reference, here is Ashiana Housing's monthly management meeting agenda:

Ashiana Housing's Meeting Agenda

Friday
6:30 – 8:30 p.m. After a round of good news from the personal and professional fronts, managers share "their number." In addition, the owners — the three brothers — review the mission, vision, and values and update the team on key targets for the year.

8:30 p.m. – ? Dinner and drinks give the team some important social time. And the personal good news the managers shared earlier fuels a lot of the conversations, creating bonds among the team members.

Saturday
8 a.m. – 10 a.m. All of the managers share their issues from the previous month while the senior team looks for patterns and trends. The main benefit, from the owners' perspective, is that this session gives the managers a chance to vent and verbalize their challenges. Often, other managers have constructive solutions, which are shared later through private conversations.

10:30 a.m. – 12:30 p.m. After a tea break, the team gets two hours of training. Recent topics have included delegation, email etiquette, and executive health. Vishal Gupta, one of the brothers, lost 5 kilograms (11 pounds) as a result.

1:30 p.m. – 2 p.m. After lunch, managers make two 15-minute "show-and-tell" presentations, giving them practice with their presentation skills and the opportunity to share best practices.

2 p.m. – 5 p.m. The team collectively tackles one or two huge issues, like sales, allowing the senior leaders to tap into the ideas of the middle managers and to model their industry knowledge and their approach to decision-making. To wrap up the meeting, they share a round of one-phrase closes, in which each leader reacts to the management meeting.

Monthly Town Hall

In addition to the weekly CEO one-pager, many top leaders also host a monthly town hall meeting, at which they make a few key announcements and give employees an opportunity to ask questions and discuss issues important to them.

WARNING: *One of the biggest mistakes a CEO can make, in the spirit of transparency and openness, is to share important changes and information with all the employees before briefing the middle* *managers and supervisors. Frontline employees, after hearing about a change, will go to their immediate supervisor for clarification and details, inquiring, "How is this going to specifically affect me?" If the managers have not been briefed ahead of time, the CEO has put them in an awkward situation. They have no choice but to respond, "I don't know. I'm hearing this for the first time myself." So, brief ALL managers first, and create a legion of allies for the changes you want to make.*

Quarterly and Annual Planning Meetings

The main agenda for these one- to three-day offsite planning sessions is to work through and update the Growth Tools. They provide the questions, focus, and agenda for these quarterly and annual planning sessions. Go to *scalingup.com* to download a bonus chapter on how to prepare for and organize these planning meetings.

SCALING UP CASH

THE CASH INTRODUCTION

KEY QUESTION: *Do you have consistent sources of cash, ideally generated internally, to fuel the growth of your business?*

You can get by with decent People, Strategy, and Execution, but not a day without Cash. Cash becomes even more critical as the business scales up, since "growth sucks cash." The key is innovating ways to generate sufficient profit and cash flow internally, so you don't have to turn to banks (or sharks!) to fuel your growth.

Costco Wholesale Corp., the fast-growing warehouse retailer, is a prime example. Co-founder Jim Sinegal made a bold move in charging a membership fee for people to shop at his stores. Today, those fees account for 75% of Costco's profit ($2.3 billion of the $3 billion in pretax earnings in 2013), bringing in enough money to finance all new stores.

Great companies, by choice, keep three to 10 times more cash reserves than their competitors, Jim Collins and Morten T. Hansen revealed in their book *Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All.* That allows growth firms to weather the storms, and that is why Bill Gates, from the very beginning, mandated that Microsoft always keep a year's worth of operating expenses in the bank. This is a lesson Gazelles has heeded since running out of cash in the aftermath of 9/11. If you've ever experienced the painful reality of not being able to make payroll, you'll never want to face it again.

Section Overview

The first chapter, The Cash, focuses on improving your cash conversion cycle dramatically. It includes several practical and creative ideas used by firms to generate sufficient cash internally to fuel growth.

The second chapter, The Accounting, highlights the underappreciated accounting function of your business and outlines how it can better support the organization in generating truer measures of revenue and profit. Co-written with Greg Crabtree, author of *Simple Numbers, Straight Talk, Big Profits! 4 Keys to Unlock Your Business Potential*, the chapter shares some important key performance indicators (KPIs), including the insightful labor efficiency ratio, to drive better decision-making and profitability.

The third chapter, The Power of One, takes you through the case study of a seemingly healthy $42 million firm that is "growing broke." Co-authored by Alan Miltz and his team, who created the leading software tool for banks to evaluate the financial health of businesses, it walks you through the 7 financial levers that every business leader can control to scale up cash. "The Power of One" refers to the benefit to cash flow if a 1% or one-day change is made to each of the 7 levers that affect it.

Two one-page Cash tools will be covered in this section:

1. **Cash Acceleration Strategies (CASh):** a place to list specific strategies for increasing cash flow
2. **The Power of One:** a way to calculate the impact on cash when making changes to the 7 financial levers

Cash: Cash Acceleration Strategies (CASh)

Gazelles
GROWING LEADERS - GROWING COMPANIES

Cash Conversion Cycle (CCC)

A Sales Cycle

C Delivery Cycle

D Billing & Payment Cycle

B Make/Production & Inventory Cycle

A Ways to improve your Sales Cycle	Shorten Cycle Times	Eliminate Mistakes	Improve Business Model & P/L
1			
2			
3			
4			
5			

B Ways to improve your Make/Production & Inventory Cycle			
1			
2			
3			
4			
5			

C Ways to improve your Delivery Cycle			
1			
2			
3			
4			
5			

D Ways to improve your Billing & Payment Cycle			
1			
2			
3			
4			
5			

Download a full-sized copy of this tool at *scalingup.com*

Cash: The Power of One

Gazelles
GROWING LEADERS - GROWING COMPANIES

Your Power of One	Net Cash Flow $	EBIT $
Your Current Position		

Your Power of One	Change you would like to make	Annual Impact on Cash Flow $	Impact on EBIT $
Price Increase %	%		
Volume Increase %	%		
COGS Reduction %	%		
Overheads Reduction %	%		
Reduction in Debtors Days	day(s)		
Reduction in Stock Days	day(s)		
Increase in Creditors Days	day(s)		
Your Power of One Impact			

Your Power of One	Net Cash Flow $	EBIT $
Your **Adjusted** Position		

12

THE CASH
Accelerating Cash Flow

EXECUTIVE SUMMARY: *Cash is the oxygen that fuels growth. And the cash conversion cycle (CCC) is a key performance indicator (KPI) that measures how long it takes for a dollar spent on anything (rent, utilities, marketing, payroll, etc.) to make its way through your business and back into your pocket. In this chapter, we'll share several ways that companies have dramatically improved their CCC using the one-page Cash Acceleration Strategies (CASh) tool, allowing them to fund growth with internally generated cash and freeing them from the grasp of banks and/or investors. We suggest that you brainstorm ways to improve cash flow at each 90-day planning session and pick a related initiative as one of your handful of priorities each quarter. Constantly improving the cash flow of the company — and better understanding how cash moves through the business — is a powerful driver for improving the firm as a whole.*

When Michael Dell was growing his company rapidly, he reached a point in the mid-'90s when he ran out of cash. He was "growing broke," like so many other businesses scaling up quickly. That's when he brought in Tom Meredith as CFO. Meredith calculated Dell Inc.'s cash conversion cycle (CCC) to be 63 days. That meant it took 63 days from the time Dell spent a dollar on anything until it flowed back through the business and onto the balance sheet (into the bank) as cash.

Focusing on one cash improvement strategy/initiative each 90 days, Meredith drove the CCC to negative 21 days by the time he left Dell a decade later. This meant the company received a dollar 21 days before it had to be spent on anything. As Dell grew faster, it generated cash instead of consuming it. That is why the founder and CEO had sufficient cash to contribute to taking the company private in 2013.

In this chapter, we'll examine strategies for accelerating your cash flow through improvements in your CCC.

Cash Conversion Cycle (CCC)

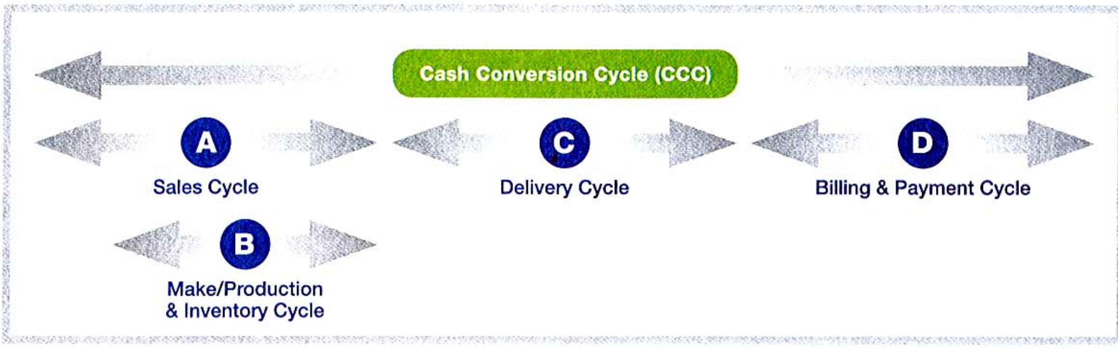
Not every business can have a negative CCC, but you can view Dell's example as inspiration to move yours in that direction. It is just a matter of looking for ways to improve it. For instance, Catapult Systems LLC, an Austin-based, Microsoft-focused IT consulting company, used to bill clients on a 30-day cycle. Meanwhile, employees were paid twice a month, leading to what founder and Chairman Sam Goodner calls "a terrible cash-flow story." He simply started billing his clients twice per month, after finding more than 90% were agreeable to the change. This nearly doubled cash flow immediately.

To tackle the cash conversion cycle, start by reading "How Fast Can Your Company Afford to Grow?" a *Harvard Business Review* article by Neil C. Churchill and John W. Mullins. It provides the formulas to help your team calculate the company's overall CCC and discusses many of the financial levers highlighted in the last chapter of this "Cash" section of the book.

NOTE: *Just as we were going to press,* John Mullins *published a new book that Verne endorsed, titled* The Customer-Funded Business: Start, Finance, or Grow Your Company with Your Customers' Cash. *The title says it all! Read it for an advanced look at the cash side of your business and for ways to get your customers to fund growth, like Costco did.*

Cash Acceleration Strategies (CASh)

To help teams brainstorm ways to improve their cash conversion cycles, we created a one-page tool called Cash Acceleration Strategies, or CASh. It breaks down the CCC into four main components:



Most businesses will have some aspect of each of these cash cycle components. Even service firms have a form of inventory if they have underutilized their staff. What might differ is the sequence of these components, with some cycles overlapping others or occurring in a different order. For instance, if you've structured your business model to collect full payments in advance, like Dell, then the billing and payment cycle occurs after the selling cycle but before the production and delivery cycle. (In other words, Dell arranged to take ownership of inventory only after a computer was sold.)

We encourage management teams to set aside an hour or more each month to brainstorm ways to improve each of these cash cycle components. This is a powerful exercise to do with the broader middle-management team at a half- to full-day monthly management meeting. It will give everyone a better understanding of how cash flows through the business and how each function can contribute positively.

Some areas of opportunity:

- First, stop saying, "Well, this is just the way it is in our industry."
- Have your available cash reported DAILY, with a short explanation of why it changed in the last 24 hours, and chart it against accounts receivable (AR) and accounts payable (AP) weekly. You'll learn so much more about your business when you see how the cash is flowing on a daily basis.

- If you want to be paid sooner, ask. Small firms are finding that large companies (and governments!!) will pay considerably faster or even prepay if they simply ask, ask, ask, ask, and ask some more.
- Give value back to customers who pay on time or in advance.
- Get your invoices out more quickly. Hire one more person in accounting to do nothing but make sure invoicing is timely and follow up on payments.
- Send friendly reminders five days *before* the deadline that payments are due. Many customers are disorganized and will appreciate the reminders, resulting in faster payment.
- If invoices are recurring, obtain recurring credit card authorization from your customers to automate on-time payments.
- Understand why your clients are paying late. They might be unhappy with your product or service. Or perhaps an invoice has recurring mistakes, or it is not structured to flow through the customer's automated invoicing system.
- Understand each customer's payment cycles, and time your billings to coincide.
- Pay many of your own expenses with a credit card so you can play the float. Get your own customers to pay by credit card, so they can pay you quickly even if their cash flow is slow.
- Help your customers improve their cash flow so they can pay you on time. Offer them leasing options, for instance.
- Shorten cycles for delivery of your product or service. All of you have some kind of "work in progress." The faster you complete projects, the faster you get paid.
- Offer a product or service so valuable that you have some leverage with your customers to get them to pay sooner.
- Remember, improving margins and profit improves cash.

NOTE: *Have your CFO give you a cash report every day, like Verne's does. The CFO should summarize the sources and amounts of cash that came in and out of the business during the last 24 hours, along with anticipated cash flow for the coming month. It keeps cash top-of-mind and allows you to react quickly — within days vs. months — if it's heading in the wrong direction. Observing the sources of cash flowing in and out on a daily basis also gives real insight into your business's financial model.*

Almost all of these ideas fall into three general categories where you can make improvements:

1. Shorten cycle times.
2. Eliminate mistakes.
3. Change the business model.

To further stimulate your thinking, here are some ideas in each category that can help you improve cash flow.

Shorten Cycle Times

Increasing the pace of everything your company does (e.g., decreasing the time it takes to complete a full cycle from customer interest to completed transaction) helps your CCC. This is why we are fans of applying Toyota's Lean process to all aspects of the business. With its focus on eliminating wasted time, it's an ideal tool to improve processes, increase employee productivity, and accelerate cash flow.

Pay particular attention to the sales process. You may be expending enormous amounts of money and time on landing customers. Using negotiation techniques taught by Victoria Medvec (check out her powerful online "High Stakes Negotiation" course at *scalingup.com*), firms like Goldman Sachs have reduced sales cycles from months to weeks and from weeks to days. The quicker you can get a deal in the door, the quicker the cash starts flowing — and you thwart would-be competitors.

On the production side, back when Dell had factories, a production worker could assemble a computer in minutes, and the company held only a few days' worth of inventory. This rapid turn of inventory and the speed of manufacturing contributed hugely to the impressive CCC the company achieved.

Because many accounting departments are short-handed, there are often delays in getting invoices sent out and bills collected. Besides billing twice per month to improve cash flow, Catapult Systems collects faster than most firms. Notes Goodner, the chairman: "Our collections person in the accounting department works hard to create a personal rapport with our clients' accounts payable teams. She is the most charming, disarming, nonthreatening, likable person you could possibly have. She starts calling the accounting departments of our clients five days before the check is due just to make sure everything is okay, and says that we are doing great on the project. She gives her number just in case anything comes up and says, 'I really look forward to getting that check from you next week.' " And if the check is late, the Catapult Systems' collections specialist places a call to the client the next day. That is another reason to bolster your accounting department resources.

Goodner credits this approach with his company's "unbelievably high" track record of getting paid on time — simply because, he says, "We ask for it."

Meanwhile, a firm in Australia sends inexpensive lottery tickets as thank-yous to its customers' accounts payable clerks when they pay invoices on time. When customers are faced with a stack of bills to pay, this company's invoices seem to magically make it to the top of the pile! And if this might be frowned upon (or deemed illegal) in your industry or locale, a holiday card showing appreciation to the people in accounts payable can achieve the same effect. The point is to have someone pay attention to the accounts payable people!

Also specify a due date (May 31, for example) on the invoice rather than include the standard "due in 30 days." Often, someone higher up in the client organization has to sign off on an invoice before it can be paid, with the 30-day clock starting when this signature is received. If there is a specific due date, even if the signature isn't obtained until the day before, the payables clerk will assume that the sign-off authorizes the payment to occur on the date specified, and will pay the bill immediately.

Examine all of the processes in the organization — sales, production, service delivery, billing, and collections — and find ways to speed up and move cash more quickly through the business.

Eliminate Mistakes

Nothing infuriates customers more than a mistake. It is the #1 reason they are slow to pay. And incomplete orders, invoicing errors, and missed deadlines are not only costly but also drag down the very processes you want to speed up, snarling cash flow.

Adam Sproule, founder of Salisbury Landscaping in Alberta, has the company's cash conversion cycle down to a fine art. The approach he has used has helped him optimize the CCC for the past 20 years. Besides securing deposits up front (with the final payment due immediately upon a project's completion), Salisbury Landscaping has put operating practices in place to finish jobs quickly and in a far less disruptive way than clients usually see in its industry. This, in turn, has given Salisbury a reputation that makes collecting deposits and payments easier.

Tradespeople in landscaping or construction usually work on two to three jobs at the same time, often leaving customers wondering what's happening and why the projects aren't finished yet. "It's a real pet peeve of people we talk to," says Sproule. Instead, Salisbury's crews focus on one job at a time, getting in and out as quickly as possible. "We deal with live plants, so we want to finish quickly," Sproule says. "Not only is it a major disruption to our clients if we don't, but the longer we take, the more likely there will be problems."

As soon as the crew leaves, a member of Sproule's team walks around with the customer to make sure the job is absolutely perfect. "Even if there are just a couple deficiencies, we write them down," says Sproule, who notes that his staff refers to corrections of deficiencies as "adjustments," to avoid any negative perception.

"We then make an adjustment list. Because we're very efficient at what we do, the customer has no reason to doubt us. So a lot of times, they give us the full payment immediately after the walk-around even if there are a few things left to do," notes Sproule. And to close the loop of learning and avoid making the same mistakes on subsequent projects, Salisbury sends out the same crew that generated the deficiencies to handle the adjustments quickly.

PPR Talent Management Group freed up a million dollars every month through improved accuracy in its invoicing. Serving the needs of a thousand clients — mostly hospitals, all with different policies and time-sheet protocols — caused considerable complexity in invoicing. As a result, clients delayed paying while PPR sorted out the errors on its invoices. To address this issue, the Florida company hired an additional person not only to build relationships with the payables departments but also to customize invoices to match each specific hospital's billing codes. As CEO Dwight Cooper notes, "When we changed our process and got it right, the confidence level with our clients came up fast."

Then the latest recession came. As it dragged on into 2009, Cooper says, "We took our eye off the cash ball." It was time to change the entire business model — at least from a cash perspective.

Change the Business Model

For PPR, collections were not the problem; it was creating the right terms to begin with. To grow the business, PPR needed cash, so it asked customers to pay in advance. "We were pleasantly surprised when many of our customers just said yes," says Cooper.

There are many adjustments you can make to your business model that positively affect your CCC. The two with the biggest results are getting your customers to fund your business, much like Costco does via membership fees, or having suppliers do this, as Dell did through its inventory management.

For sources of cash other than loans or investors, we refer you to a *Fortune* Small Business article Verne wrote titled "Finding Money You Didn't Know You Had": *http://tiny.cc/finding-money*

Improving Profitability

Benetton India also felt the crunch of the economic downturn in 2009, so it embarked on a major cost-saving initiative. Sanjeev Mohanty, CEO of Benetton India Private Ltd., got vendors to bid online for contracts using business-commerce software purchased from Ariba. "Initially, everyone was very skeptical, saying that we would lose quality," he says. Plus, some suppliers had been providing goods to Benetton India for more than a decade, and executives hesitated to disrupt what appeared to be working well.

Mohanty persisted, and the savings have been significant. For instance, Benetton India invited six different suppliers, including the incumbent, to bid on its contract for shopping bags. Suppliers can use Ariba not only to place their bids, but also to see what other companies are bidding. Normally, the whole bidding process can take several hours, but this round closed in 32 minutes, while the executive team watched in real time. Benetton previously paid 52 cents per shopping bag, and the final bid came in at 34 cents — a huge savings. Surprisingly, the incumbent supplier provided the final low bid, so in addition to benefiting from the savings, Benetton India maintained the same-quality bag. Today, company employees must use Ariba to procure any goods or services with a value of more than $10,000. In one recent year, Benetton India saved $1.2 million through this procurement process.

Again, when you improve profitability, it improves cash — as long as you're not funding management waste on the balance sheet, as we'll discuss further in the next two chapters. And for retail companies like MOM's Organic Market and Benetton India, which collect cash or credit card payments for every transaction, the only real internal financial cash lever is on the P&L side of the business.

During the recent financial crisis, fearing credit lines might dry up, MOM's CEO Scott Nash and his team stayed laser-focused on improving profitability (emphasizing pricing, purchasing, etc.). Today, with four times industry average profitability, the metro Washington-based chain has driven up its free operating cash flow to fund its continued expansion. At Catapult Systems, Goodner finds cost savings by sitting down with an accounts payable employee every six months to scrutinize what the company is paying for goods and services. Understanding the expenses, one-time charges, and recurring charges leads to savings opportunities that add up. "There's probably tens of thousands of dollars a year I can cut, and the company doesn't feel the difference," Goodner says. For example, when he realized that the company was paying $600 per month for bottled-water service at one office, he decided to purchase a commercial filtration system instead, for one-tenth of the cost. "Recurring charges are the ones that really kill you," says Goodner. "Anything that's a recurring charge forever, I still personally approve before it gets accepted."

Completing Your Cash Acceleration Strategies (CASh) Tool

1. Read the *Harvard Business Review* article by Neil C. Churchill and John W. Mullins titled "How Fast Can Your Company Afford to Grow?"
2. Calculate your existing CCC in days.
3. Calculate the amount of cash required to fund each additional day of CCC.
4. Brainstorm ways to improve your CCC and the 7 financial levers highlighted in the last chapter of this "Cash" section using the one-page CASh tool. Be sure to explore ways in all three general categories — shortening cycle times, eliminating mistakes, and changing the business model — for each segment of the CCC.
5. Choose one cash-improvement initiative every 90 days as one of your quarterly priorities (Rocks).

Imagine you improve your CCC by 30 days (and you run a $30 million business). You now have $2.5 million extra in your bank account, and you can:

1. Pay down your operating credit line.
2. Distribute a dividend to shareholders.
3. Invest in a new project that will support your growth plans.
4. Sit on it until you find the perfect opportunity.
5. Keep it as insurance for when times get rough.

The best part about improving your CCC is that it usually results in your business pulsing faster, which is better for the customer. It will also improve the business savvy of your managers as they become more aware of the impact of their decisions on cash flow. And with more cash in the bank, everyone will sleep better as you scale up the business. This is one routine that will really set you free and give you sticking power in the market.

13

THE ACCOUNTING
Driving Profitability

EXECUTIVE SUMMARY: *Greg Crabtree's highly readable book,* Simple Numbers, Straight Talk, Big Profits! 4 Keys to Unlock Your Business Potential, *pioneered new territory for growth firms. It strikes a nerve with CEOs, showing that accountants are not giving them the data they really need to make better decisions. Crabtree's book makes the case that somewhere along the way, accountants became mere processors of data, losing the ability to communicate this information clearly and simply. We invited Crabtree, CEO of Crabtree, Rowe & Berger PC, to co-author this chapter in order to share some of his wisdom and insight into how accounting can help leaders anticipate problems, grow a business profitably, and drive valuation.*

A certain service business, clawing its way to $5 million in revenue during 14 tough years, was barely turning a profit or providing a reasonable wage to the owner. Greg Crabtree's accounting team stepped in, using his Simple Numbers approach to help the owner see his business in a different light. They made the key top line gross margin, not revenue. The service firm adjusted the owner's pay to a real market wage so that profits would not be overstated. And Crabtree's team introduced techniques for tracking labor efficiency, helping the owner align his labor costs immediately with business cycles.

The net result: Crabtree's client grew to $25 million in the next five years and hit 10% profit, after paying the owner a competitive salary. Yes, there were significant taxes to pay, but that's because the company was now generating real after-tax wealth that helped both the business and its owner become debt-free and flush with cash.

In this chapter, we'll explore the various tools and methodologies that Crabtree and his team used to help this company and hundreds of others improve profitability dramatically. The process starts with valuing a strong accounting function in a business.

Accounting: Underappreciated

If the #1 weakness of growth firms is marketing, the #2 problem is accounting. Accounting is often underappreciated. It is seen as a necessary evil to keep the tax collectors at bay; invoice, collect, and pay bills; and provide monthly accounting statements — which often receive at most a cursory glance at the bottom line of the P&L.

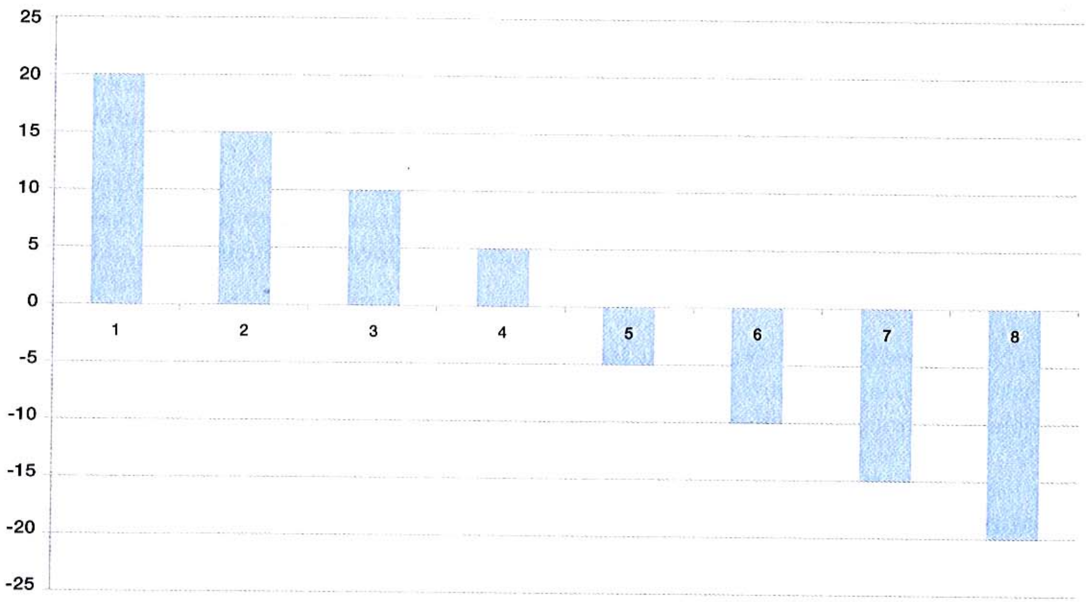
"The #2 weakness of growth firms is accounting."

Accounting is often underfunded as a result. Most entrepreneurs, if they have an extra dollar of profit to spend, invest it in either making or selling stuff. Those are good uses of the money. However, we've seen profits and cash double within a year when businesspeople also devote just a little more attention and resources to accounting (remember, John D. Rockefeller was an accountant by training). Hiring just one additional person to either support the CFO or carry some of this executive's workload enables him or her to provide the following:

1. Better cash and cash-flow management
2. Waterfall graphs, which we will explain shortly, to share more granular accounting data for better decision-making
3. Trend analysis and early-warning systems to support better prediction
4. Two sets of books — for the right reasons!

Waterfall Graphs

A key accounting activity is to slice and dice a company's financial data as granularly as possible. This lets the leadership team view the gross margin, profit, and cash flow by categories, such as individual customer, location, product line, salesperson, etc. Accountants do this by creating a series of waterfall graphs (see the diagram below).



NOTE: *The vertical axis might measure gross margin or profit percentage, while the horizontal axis might enumerate specific customers, locations, salespeople, product lines, or SKUs.*

The leadership team soon discovers from these waterfall graphs that the company is making a bunch of money from a limited part of the business and losing some or a lot in other parts, resulting in a gross margin or profitability that is mediocre. It's the less profitable parts of the business that tend to suck up most of management's time and attention. Turnaround specialists like Greg Brenneman, the Houston-based chairman of private equity firm TurnWorks Inc., rely on this kind of data to eliminate consistently unprofitable routes, as he did at Continental Airlines, and menu items, as he did at the Quiznos restaurant chain.

"What is strategic about losing lots of money?"

So why do we continue to hold on to these losers? "For strategic reasons" is the excuse! Yet what is strategic about losing lots of money over a long period of time? Apple could have easily argued that selling its money-losing handheld computers was a strategic move, but Steve Jobs eliminated the product line when he came back to run the firm a second time. Any loss leaders you might need — and these should be kept to a minimum — should be treated as a marketing expense in your accounting. For more insight into this common strategic mistake, read Brenneman's *Harvard Business Review* case study on the turnaround of Continental Airlines.

Trend Analysis

A fundamental responsibility of leaders is prediction, and they need both frequent quantitative data and qualitative feedback from the market to make the right calls. As we've mentioned, any data more than a week old is history and is not useful for making the fast decisions necessitated by our highly connected global economy.

The accounting function is critical in this regard. It should provide the kinds of reports and graphs that help the leadership team see into the near future. For example, we helped the CFO of a distributor of electrical supplies to set up a series of weekly bar charts (rather than eye-straining Excel spreadsheets) that monitored major customers' purchases of various product lines. Sales to these accounts constituted 80% of the firm's revenue. After a few months, the company could see that one of the customers was slowly reducing its relative order size. That was an early warning that something was amiss and alerted the account manager to follow up more quickly than normal. The company was also quicker to notice and act on other trends, like the change in popularity of certain product lines, now that leaders were seeing this visual data weekly, rather than monthly or quarterly.

Microsoft MapPoint

Where are all the maps with pushpins you used to see populating sales and marketing offices — and the offices of CEOs? We wish companies used them more. Seeing data mapped out this way helps you visualize patterns you wouldn't otherwise discern. For instance, we mapped a database of gazelles against cities where we have coaching partners and could immediately see where we had gaps in our coverage.

Barrett Ersek used a series of maps and Microsoft's powerful MapPoint software to see patterns in where he was making sales (based on close ratios) and getting callbacks within his lawn care business. He also mapped the customer locations of his potential acquisition targets, which he overlaid on maps of his existing client locations to give him a better idea of an acquisition's value. For example, did a target company's customers live in certain neighborhoods that would enable him to route his equipment more efficiently?

See how many Excel spreadsheets you can replace with MapPoint maps. Check out a demo of this inexpensive software at *microsoft.com/mappoint*, and encourage your accounting team to create more maps. Note: Bing Maps will be replacing MapPoint as of Jan. 1, 2015.

Two Sets of Books

One set of accounting books is needed to satisfy the rules of the Financial Accounting Standards Board (FASB) and the tax authorities. However, rarely should you make business decisions based solely on these regulations. For instance, computer hardware and software can be amortized over several years for tax purposes. However, Michael Dell wanted business units to implement only solutions that had a quick payoff. So, for internal purposes, Dell treated all technology costs as an expense against a division's P&L within 12 months.

For more on this topic, we encourage all CFOs to read Thomas A. Stewart's classic book *Intellectual Capital: The New Wealth of Organizations.* Pay particular attention to the extensive appendix, where he suggests specific accounting rules that better align with an information-based economy than with a manufacturing-type economy, which generated many of the FASB rules we follow today. For example, whereas you can amortize software over several years, you must expense employee training and development in the quarter in which it's provided. Stewart argues strongly that if any expense could legitimately be amortized over a longer period of time, it is education. The ideas your team learns today will continue to have an impact for many years.

The key is to decide on the practices and rules by which you want the company to run, and have accounting align your internal books in support. Use Stewart's book as your guide to grow a 21st-century-focused organization.

Simple Numbers

Greg Crabtree had always felt like a misfit in accounting, given his concerns for the profession, so he began a journey to bring simplicity, clarity, and power to the numbers. This led to the Simple Numbers process, discussed in his book by the same name. His approach focuses on four keys to running a wealth-building business:

1. Clear the distortions.
2. Set appropriate profit targets.
3. Use labor efficiency to drive profitability.
4. Understand the 4 Forces of Cash Flow.

We'll look at the first three items in more detail than the last, since Crabtree's views on cash align with Alan Miltz's approach, covered in the next chapter.

Clear the Distortions

If a company generates less than $20 million a year in revenue, then compensation and distributions to the owners can distort the true picture of profitability. That happened at the company in the example that opened this chapter. (For the benefit of employees reading this book: Owners usually pay themselves much less than you might imagine, especially in the early days, preferring to plow the profits back into their businesses.)

An excellent example of this distortion was a client that had two 50/50 owners. When Crabtree first looked at their books, they were boasting about 25% profitability. However, once he reclassified distributions to account for an equivalent market wage for the owners, their true profit was 3%! What happened next is the mind shift Crabtree likes to see. The owners bought into this more accurate way of calculating profitability, and the next year, they made their market-based wages AND 20% profit — a scenario that we've seen over and over.

Gross Margin Dollars

The next major accounting distortion is centered around revenue. Revenue is vanity (and the weakest number) when it comes to your P&L. Focus instead on a redefined version of gross margin. Crabtree calculates gross margin to be revenue minus all NONLABOR direct costs. This definition of gross margin gives you the true economic top line of the business.

Understanding this is especially important for businesses that utilize subcontractors, have high materials costs, or operate as distributors with low margins. There is no way that a $4 million distributor that gets a 10% commission on all its sales or a custom home builder with high costs for materials and subcontractors compares to a $4 million service firm. In essence, nonlabor direct costs, which are paid out of revenue, are simply pass-throughs. You definitely want to get them at the best price, but you usually cannot move the price enough to make up for any profit deficiency in your business model. The same holds true at employment agencies and professional employee organizations, where revenue is the total payroll that passes through the organization. The net dollars they have to operate their businesses are a fraction of this amount.

In the service-company example we discussed earlier, gross margin dollars became the new top-line focus, instead of revenue. That guided the business to seek opportunities that resulted in the highest gross margin per labor dollar. This was a key step in going from breakeven to 10% profitability.

Instead of obsessing about revenue, shift the internal discussions to generating gross margin, the real top line of the business. (Talk about revenue with outsiders if you want.) And note: The focus is more on gross margin dollars than gross margin as a percentage.

The Power of Gross Margin

Gross margin doesn't get enough respect. It's bad enough that it's stuck in the middle of the P&L and often gets glossed over. It's actually THE most powerful indicator of an effective sales team, a differentiated strategy, and real growth. As a company scales up, the market demands better pricing (e.g., your largest customers now ask for discounts). When this is combined with the complexities and increasing costs that come with being a larger company, we often see gross margins shrink by 3% to 4% — from, say, 55.4% to 51.8%. At the $10 million or $100 million level, such a dip results in $300,000 to $3 million becoming unavailable to fund infrastructure, pay a key executive, or fuel profitability.

There are two options to improve your gross margins. The first is to refine your strategy to maintain enough differentiation and uniqueness in your offering that you can hold your line on pricing (see "The 7 Strata of Strategy" chapter). This requires both salespeople who can sell this differentiation and a marketing function that keeps them armed and focused on the right customers. In these cases, you can actually see gross margins increase a few percentage points with growth. This is why hyperspecialization is powerful.

Of course, there are some markets that are just brutal — especially for lower-margin products and services. In these cases, if you get too focused on the gross margin percentage, you may miss an opportunity to grow, and your only option is to simply drive up overall gross margin dollars. That last gross margin dollar shouldn't cost you as much as the first one, so bring in as much cash as you can, factoring in how you might have to ramp up fixed costs.

If the market tells you the price that customers are willing to pay, you have to make your costs fit and still turn a profit. This is called a cost-led pricing strategy.

WARNING: *Since gross margin dollars more accurately measure sales performance, you should never base sales compensation on revenue unless your cost of goods sold does not vary from sale to sale. You will be paying commissions on revenue while allowing your salespeople to set the price!*

Set Appropriate Profit Targets

Now that we have cleared the two major distortions, we can set a true profit target. The first decision is whether to define profit as a percentage of revenue or gross margin. As a general rule, once your gross margin percentage gets below 40% you should relate profit to gross margin, so you can generate an apples-to-apples comparison with other industries. Lower-margin businesses must sell a significant volume of other people's products and services to succeed. For example, a $20 million general contractor might average a 2.5% profit as a percentage of revenue (which is good for a company in its industry), given all the pass-through costs we mentioned above, yet the ratio of profit to gross margin would be 18%. The reason businesses like this can survive on what appears to be a low profit margin relative to revenue is that they typically do not have to fund direct material and subcontractor costs passing through the business. Instead, they can take a draw against each project to pay for materials, and they generally do not pay their subcontractors until they get paid themselves.

With this adjustment in how profit percentage is defined (i.e., relative to gross margin vs. revenue, depending on industry) and with distortions eliminated, comparing businesses from different industries gets easier. Here's what Crabtree's CPA firm finds:

- At 5% pretax profit, your business is on life support.
- At 10% pretax profit, the business is doing well but has some untapped potential.
- At 15% pretax profit, the business is in great shape.
- Anything above 15% indicates that you should earn it while you can. The market will figure out what's going on, competition will show up, and you will eventually get pushed back.

"At 15% pretax profit, a business is in great shape."

Yes, there are always exceptions, but not as many as you may think if you make the adjustments above and see your relative profitability in this new way.

Use Labor Efficiency to Drive Profitability

Now we can get to the #1 driver of profitability — labor efficiency — a measure of the productivity of each dollar we spend on labor. Notice that we do not discuss total labor costs, but rather the productivity of a dollar of labor. Instead of seeing labor costs as a percentage of something (revenue, gross margin, etc.), we want to view labor as something you can leverage. You just need to know the multiplier (e.g., for every $1 you spend on labor, you get $3 back). The theory is that as long as you can keep applying productive labor (be it salespeople, programmers, or call center reps) at the right multiple, the only bottleneck is lacking enough of the right people to keep growing.

The key is to know the right multiple for each of the three major segments of labor demonstrated in the exhibit below. The three segments of labor efficiency we want you to focus on are:

- **Direct labor efficiency:** gross margin dollars divided by direct labor cost
- **Sales labor efficiency:** contribution margin dollars divided by sales labor cost
- **Management labor efficiency:** contribution margin dollars divided by management labor cost

A few points that address some common questions:

- Contribution margin is defined as gross margin minus direct labor. This is what most accountants refer to as gross profit, but it mixes labor costs with nonlabor costs and masks the productivity of labor.
- Here's how to decide which workers go into each bucket: Start with direct labor, determining which employees spend 50% or more of their time delivering on the product or service your business offers. All other labor goes into management labor. If you have a sales team, as in the example below, break out those employees separately.
- Avoid splitting a person across multiple groups.
- Do not add payroll taxes and benefits. Only count what you pay employees in wages and bonuses, to keep the calculation simple.

- Here's why contribution margin is used for management and sales labor: Workers you classify as direct labor are accountable only for the work you put in front of them; that is why they are measured against gross margin. But management and sales labor are held to a higher standard. We want management to manage gross margins, direct labor performance, and sales. We want the sales team to grow our revenue.

In the company case study below, we show how a firm can grow profitably. Our pet peeve is when a company's leaders think it should grow regardless of profit. This is just reckless, unless you're a venture-backed firm pioneering new territory. For everyone else, we recommend getting profitable with the work you have, proving you can get to 15% profitability (based on our adjusted Simple Numbers), adding labor to knock profit back to 10%, and then growing to 15% again. Lather, rinse, and repeat.

Labor Efficiency Ratio (LER) Example

Let's look at a company generating $450,000 per month in revenue, with a profit of 4.4% (see the financials on Page 215). The owners are considering an eventual sale, but right now, the business is on life support, given our definition of healthy profits. Our prescription was to hold all costs constant until the business reached $492,195 in revenue per month. Notice we said to hold the costs constant, but we did not say that the company could not replace individual employees. The company was spending the right amount of money for each segment of labor, but it did not have the right team members in the right place. The solution is simple in principle, but implementing it is hard: The leaders had to get honest with the team about their productivity, resulting in some tough conversations.

It is amazing how many companies respond to this simple targeting mechanism once they try it. First, get to 10% profitability; then look around and see who is tired or frustrated. There is a good chance you won't find anyone, because your employees will be energized by hitting a key goal. Reset your course, and keep going until you hit 15% profitability.

Once you get to 15% profit the first time, you can then add labor dollars across the categories, based on where you see stress — and there will be some initially. Adding dollars means covering raises or bonuses, or adding new people. Labor efficiency does not care how you spend your money, whether on more people or raises. Just keep the same rate of labor productivity.

Limit the amount of labor added so you don't drop back below 10% profit. This is why we say "10% is the new breakeven." Once you add the new labor and profitability drops, hold labor costs steady and grow back to 15% profit. Keep repeating the cycle.

"10% is the new breakeven."

When you start seeing how the LERs change at each level of profitability, you begin developing a unique perspective on how your business model operates. You know when you are running hot and need to add people and when you are overstaffed and need to make other adjustments.

In our company case study, here is how the leaders' efforts played out:

- **Direct LER:** There was an LER of about 4.25 each time that profit reached 15%. Direct LER is typically the first to stabilize and move into a tighter range.
- **Sales LER:** When the company hit 15% profitability the first time, sales LER went to 8.29; the ratio settled back to 7.38 the next time profitability reached 15%. The discussion with the sales team revolved around whether to add more salespeople or pay incentives when the company got back to 8.29. The sales team tried to sell management on doing both sooner, but we coached the leadership team to hold out until sales LER returned to 8.29.
- **Management LER:** The team needs to be careful about adding management cost to the business, making sure each additional leader contributes to management productivity (i.e., helps increase contribution margin dollars).

NOTE: *The typical frustrated entrepreneur wants to fill every role as soon as possible. However, unless you have sufficient capital to cover the losses until sales catch up with salaries, this is a deadly move. Taking it slow is especially critical when adding highly paid senior leaders to the team. Add one key role at a time. Get profitable with that executive before you add the next one or add support personnel. Once you've scaled up the business sufficiently to have a full leadership team, management LER really starts to improve as revenue grows. You need only add supporting staff at this point.*

	Original monthly profit	Step #1 10% profitability	Step #2 15% profitability	Step #3 back to 10% profitability	Step #4 back to 15% profitability
Revenue	450,000	492,195	534,383	534,383	587,822
Direct costs excluding labor	130,000	142,195	154,383	154,383	169,822
Gross margin dollars	320,000	350,000	380,000	380,000	418,000
Gross profit	*71.1%*	*71.1%*	*71.1%*	*71.1%*	*71.1%*
Direct labor costs	90,000	90,000	90,000	98,333	98,333
Contribution margin	230,000	260,000	290,000	281,667	319,667
Management labor costs	75,000	75,000	75,000	83,333	83,333
Sales labor costs	35,000	35,000	35,000	43,333	43,333
Other operating costs	100,000	100,000	100,000	101,667	105,000
Pretax profit	20,000	50,000	80,000	53,333	88,000
Pretax profit as % of revenue	4.44%	10.16%	14.97%	9.98%	14.97%
Contribution margin as % of revenue	51.11%	52.82%	54.27%	52.71%	54.38%
Other operating costs as % of revenue	22.22%	20.32%	18.71%	19.03%	17.86%
Labor efficiency ratios:					
Direct labor (GM/DLC)	$3.56	$3.89	$4.22	$3.86	$4.25
Sales labor (CM/SLC)	$6.57	$7.43	$8.29	$6.50	$7.38
Management labor (CM/MLC)	$3.07	$3.47	$3.87	$3.38	$3.84

In this case, leaders were able to isolate certain labor groups that could be held accountable for specific line items that make up the total gross margin. Whenever there was a downturn, the company trimmed the team members who were not as productive, or allowed some of their productive full-time staff to drop back to four days a week. Don't underestimate how many of your employees would like to cut back to four days a week. Starbucks considers its employees full-time at 30 hours per week, but will expand workers' time up to 40 hours to meet scheduling needs. This gives the company 20% labor flexibility at no overtime premium. Meanwhile, Starbucks employees generally rank their employer as a top place to work.

Understand the 4 Forces of Cash Flow

Once a company is on the road to 15% profitability, as defined by the Simple Numbers formula, it faces additional cash-flow challenges. We say "additional" because whenever management tells us there's a cash-flow problem, we always start with fixing profitability, unless the company is broke and needs an immediate cash infusion to make payroll.

As we mentioned in the last chapter, you can improve cash flow by negotiating favorable terms with customers and vendors. However, we recommend sacrificing your margin with special deals only if you're desperate.

Force #1: Taxes

Know how much you owe in taxes throughout the year to avoid the annual tax day surprise. And resist the temptation to spend $1 in order to save 40 cents in taxes by rationalizing, "Hey, the government pays for 40% of the cost of the computer [or whatever the company is buying], anyway." Crabtree believes that rather than chasing the very limited tax-saving maneuvers available, CPAs would better serve business owners if they would emphasize that true wealth is created only with after-tax profits. If you do not pay any taxes, you either have not created any wealth or you have cheated, and both scenarios are bad.

Let's return to the service firm that grew to $25 million in revenue. Crabtree made sure that it set aside enough cash for taxes each quarter, so the management team did not get blindsided by the tax day surprise.

Force #2: Manage Debt

Debt is generally not your friend. If not managed properly, debt will enslave your business and keep it from reaching its full potential. Once you have set aside your tax money, eliminate debt on your line of credit and remain current on any term loans. Lines of credit are like crack cocaine for businesses because it's too easy to draw on them to solve cash-flow issues, rather than make the hard decisions that lead to improved profitability.

If you need a line of credit to handle seasonal ups and downs or to extend your customers' credit, we recommend that you borrow on it only when you are profitable. If you are losing money, do not draw on it before you fix the underlying problems. Banks know that a company losing money will eventually have no funds to repay the line of credit.

"Debt is generally not your friend."

Term debt can help you spread the cost of long-term assets over their useful life. However, if you have "termed out" your line of credit, pay off this debt as quickly as possible if it does not support any long-term functional asset. And avoid falling for the trap of using debt to buy an asset at year's end just to save on taxes. This ends badly over the long run, unless the asset is critical to improving profitability.

Force #3: Core Capital Target

Meeting your core capital target means having two months of operating expenses **in cash,** after you have set aside money to pay your taxes and assuming that you have nothing drawn on your line of credit. In our opinion, any company that can meet this criterion is considered fully capitalized and can start harvesting profits for either further growth opportunities or distribution to shareholders for wealth diversification. If business owners harvest profits before debt is cleared, they risk putting the business into an undercapitalized situation. This is a problem that plagues many growth companies.

The definition of two months of operating expenses includes all normal operating expenses on which you do not get terms. As a rule, the only costs you exclude will be your cost of goods sold, since businesses typically get terms of 30+ days.

Hitting the core capital target is one of the most rewarding accomplishments we have seen our clients achieve. It changes their thinking. It improves their profitability. They are not so cash-strapped that they have to give away margin. It also gives them staying power through a bad quarter. Most of them never want to see line-of-credit debt again.

In the case study, the company originally bringing in $450,000 a month went from looking at a line of credit as its cushion to having three months of operating expenses in cash on hand. The owners were surprised that it took only 18 months to get there once they fixed their profitability.

Force #4: Harvest Profits by Paying Dividends

Once you have set aside taxes, paid off your line of credit, and met your core capital target, you can safely take your after-tax profits in the form of a distribution or bonuses to employees. You have now created a profitable, cash-flow-generating business — the best of both worlds. The company is more valuable than less profitable peers. You own a wonderful, high-performing asset that you may want to consider holding on to rather than selling.

Here is the often-overlooked nugget in all of this: If you run a business at 10% profit that has hit its core capital target, you now have a business that is producing a MINIMUM return on equity of 50% PER YEAR! Investors would kill for a rate of return of 20% year after year, and yours is running somewhere between 50% and 100% per year. This is the true secret of building wealth within a privately held business.

In the case study, the owners went from thinking about selling the business once it hit a certain size to wanting to keep it, since it generated a great annual return on investment and had great value. You need a nice premium on a sale to replace an asset that's earning 50%+ per year.

Keep it simple, keep growing, and grow profitably is Crabtree's motto! We couldn't agree more. The key is getting a better handle on a few crucial ratios and adjusting your numbers to get a better picture of your true profitability. Let's next take a more thorough look at the cash side of the business.

14

THE POWER OF ONE
7 Key Financial Levers

EXECUTIVE SUMMARY: *The income statement often receives more attention than the cash flow statement. By giving the cash flow statement just a little more consideration, and tweaking 7 key financial levers outlined at the end of the chapter, a company can grow considerably faster using its own internally generated cash than by raising or borrowing external capital. Co-authored with the team at Cash Flow Story — Alan Miltz, Joss Milner, and Nathan Keating — this chapter looks at a seemingly healthy $42 million company headed for a cash disaster and the steps it was able to take to reverse its situation. You will learn how to use what Miltz's team in Australia calls "The Power of One" to develop a better understanding of how to improve cash flow and actively develop a cash-flow culture within your business. "The Power of One" refers to the benefit to cash flow if a 1% or one-day change is made to each of the 7 levers that affect it. Miltz and his colleagues created an inexpensive online software tool — www.cashflowstory.com — to do all the powerful calculations that show your team how to double operating cash flow and sleep better at night. Nothing ages a company's leadership faster than being short of cash!*

HINT: *If you really don't like numbers, read the first few pages of the chapter, and then jump to the end and read the section called "The Power of One and the 7 Levers" starting on Page 231.*

Established in 2001, Gary's Furniture imports and manufactures high-end furniture. Over nearly 15 years of operation, the business has grown from a start-up to a well-established firm, with revenue of $42 million. Its customer base continues to grow, as does its geographical reach. The business has grown profits for the last 10 years. Gary is a member of a local CEO forum group. When asked by the group to score his satisfaction with his business performance, he consistently scores his business 10 out of 10!

Gary had no concerns when his bank called a meeting one day at its head office, shortly after he submitted his recent financials. But what Gary didn't know was that he was "growing broke." (Read that again!)

Profit vs. Cash

What is more important, profit or cash? If you're a growing business, it's cash. This is why Amazon has continued to thrive while at near breakeven or, frequently, while posting losses. Amazon's business model generates significant cash — more than $3 billion in 2013 — which, in turn, fuels its rapid growth.

The following case study shows how a healthy profit and loss statement can mask pending cash-flow issues that will only get worse as the business continues to scale. Gary didn't know it, but he was outgrowing his ability to fund the business — growing broke — because he didn't understand the supreme importance of cash. In such a situation, unless you continue to raise emotional money (that is, cash from people who love you), the smart money will flee, which only speeds up the demise of the business.

"Gary didn't know he was 'growing broke.'"

It's imperative that you understand your business from the perspective of bankers and investors, so you're not frustrated by their apparent lack of appreciation for the company you're scaling up. Miltz and his team built software that banks all over the world use to analyze the creditworthiness of a business, then decided to put these same tools in the hands of business leaders. Hang in there through this case study, and you'll learn the 7 levers you can tweak to improve cash flow dramatically and sleep better at night.

The Dreaded "Hospital Division"

When we left off, Gary was heading to the bank. He could just as easily have been going to a meeting with an angel investor, a private equity firm, or a potential acquirer who would be looking at the business through the same financial lens that Gary's bankers used.

When Gary was ushered into the meeting room, in front of him were not only his relationship manager and her assistant, but also the district manager and two other gentlemen dressed in suits. Gary was introduced to the two new parties, who were from the bank's Special Credit Division.

The duo explained to Gary that their division was charged with managing clients deemed by the bank to be high-risk. Every bank has a group like this. It may go by different descriptions, depending on the bank, among them "asset management," "credit restructuring," and "special business services." We call it the Hospital Division.

These men have the hardest job in the bank. They are responsible for determining rapidly whether a client is providing the best return on the bank's capital assets, relative to the risk of loss. If not, it is their job to maximize the recovery of capital as quickly as possible. Because these bankers did not write the original deal and have a very distant relationship with the business owner, they are well-positioned to make hard decisions, but they face limited personal career consequences if the bank incurs a loss when exiting from the relationship.

"These bankers were idiots and didn't understand his business."

Gary was absolutely shocked. How could his bank see him as high-risk? Had the bankers not read the recent financials? At this point, Gary could think only one thing: These bankers were idiots, and they clearly didn't understand his business. Gary tuned out from the meeting as his mind whirred through his potential next steps. He missed most of the conversation as the bankers explained how they would increase his interest rates and restrict his access to further increases in funding. He was livid.

Immediately after the meeting, Gary rang his accountant, and his accountant called us. We arrived at Gary's office the next day to find him still in denial, cursing and swearing about his bank's audacity in increasing his rates.

We use a phrase in our business when we first meet most clients: "Business speaks Spanish, and banks (and investors) speak Portuguese. To the uninitiated, they sound like the same language, but they are actually totally different." This was exactly Gary's situation: He and the bankers were speaking two different languages, but he couldn't tell the difference.

The Numbers

Gary provided us with a copy of his last two years of financials, as summarized to the right. Take a look.

At a glance, the business looks healthy. However, it faced a problem that's present in 80% to 90% of all companies that we visit: inadequate cash flow. Businesses are profit-focused. In Gary's case, he was looking at revenue and profit that were growing significantly, and he was feeling great.

However, there is an old saying: "Revenue is vanity, profit is sanity, and cash flow is king." You do not pay bills or distributions with profit. You can buy your spouse that holiday house or nice car only when you have sufficient monthly cash. Until businesses become serious about measuring and growing cash, in addition to profit, they often run short.

What Is Cash Flow?

The only indisputable facts in any set of financials are the numbers that relate to cash. Your profit is an opinion, and data can be manipulated to provide a specific outcome (Greg Crabtree's Simple Numbers from the previous chapter help expose this manipulation). Your balance sheet is for the most part also an opinion; you can amend valuations to produce a desired result. Only your cash and debt balances are facts. Banks recognize this and use these numbers to determine your performance.

Profit & Loss	2012	2013
Revenue	**35,000,000**	**42,000,000**
Gross margin	10,500,000	13,020,000
Overheads	6,751,140	8,401,150
EBIT	**3,748,860**	**4,618,850**
Interest	1,165,900	1,363,480
Tax	930,280	1,172,348
Net profit	**1,652,680**	**2,083,022**
Depreciation	**(820,000)**	**(933,000)**

Balance Sheet	2012	2013
Accounts receivable	6,712,330	8,630,137
Inventory	10,336,960	14,291,507
Current assets	**17,049,290**	**22,921,644**
Fixed assets	8,500,000	9,500,000
Total assets	**25,549,290**	**32,421,644**
Accounts payable	4,028,550	5,557,808
Short-term debt	5,019,740	7,279,813
Current liabilities	**9,048,290**	**12,837,621**
Long-term debt	9,000,000	10,000,000
Total liabilities	**18,048,290**	**22,837,621**
Share capital	2,001,000	2,001,000
Retained earnings	5,500,000	7,583,022
Total liabilities and equity	**25,549,290**	**32,421,643**

Our first question for Gary was simple: "What was your cash flow in 2013?" Gary could not answer this. (Look back over the financials. Can you calculate the answer quickly?) Every day, business leaders produce their financials and share the results with their management teams, and yet very few of them can readily answer such questions.

"Only your cash and debt balances are facts."

Cash flow is an expression that is used in businesses every day: "I have good cash flow." "I need more cash flow." "We need to improve cash flow." Most businesspeople use the term to describe a general availability of cash. It refers to an almost intangible quality of a business. However, to a banker, cash flow has a specific value. It is a ratio that describes management competence. And that competence starts with you, the business leader, understanding the information that follows. If you don't, the money people will always have an advantage over you. In the sections to come, we will give you a high-level overview of what you need to understand to stay in control of your business.

Two Uses of Cash

Whether you're sitting on a pile of cash or a mountain of debt, keep reading. The lessons apply to you in either case.

Cash flow is the change in cash and debt balances across a given period. Because Gary operated using an overdraft account, labeled on the balance sheet as "short-term debt," there is no specific "cash" line item (i.e., he had no cash of his own in the bank). His short-term debt increased in 2013 from \$5 million to \$7.3 million, and his long-term debt increased from \$9 million to \$10 million. The company's cash flow for 2013 was minus \$3.3 million. Gary had gone backward in cash.

This information, presented in this way, was new for Gary and surprised him a little.

Opening net debt	
Short-term debt	5,019,740
Long-term debt	9,000,000
	14,019,740
Closing net debt	
Short-term debt	7,279,813
Long-term debt	10,000,000
	17,279,813
Net cash flow	**-3,260,073**

Owners like Gary choose to spend money every day to grow their businesses. However, sometimes they are actually spending their hard-earned money to cover management-influenced waste (read that again). Did Gary actually need to spend \$3.3 million of new money from the bank to increase his revenue from \$35 million to \$42 million and to raise his profit from \$1.7 million to \$2.1 million — or was this increase in borrowing used simply to fund poor management practices? This question highlights the only two uses for cash flow:

1. Cash is used to invest in growth, or
2. Cash is used to fund management-influenced waste.

And yet too few growing businesses are able to visualize their cash burn in this simple framework!

Measuring Financial Success

(Prepare to read this three times and talk about it with your CFO or CPA. This is detailed — but important!)

While there are a number of measures of financial success, we focus on two:

1. Cash flow
2. Returns

When accountants prepare a balance sheet, they generally follow a fairly standard formula:

Equity = Current assets + Noncurrent assets (value not realized in current years) - Current liabilities - Noncurrent liabilities

or

Equity = CA + NCA - CL - NCL

or

Equity = Assets - Liabilities

And a balance sheet will contain the following items:

Equity		=	CA	NCA	CL	NCL
Share capital			Cash	Fixed assets	AP	LT debt
Reserves			AR	Investments	ST debt	Other
Retire. income			Inventory	Intangible	Accruals	
			Other	Other	Other	

However, bankers are likely to have a fundamental issue with this structure. Would you not agree that equity is a type of funding for the business? Your bank also provides funding. It stands to reason, then, that if you group your funding on one side of the = sign, then the other side represents your business's moneymaking machine, its operations, and its net operating assets.

Hence, your balance sheet equation can be rewritten as:

Equity	Net debt	=	CA	NCA	CL	NCL
Share capital	Cash			Fixed assets	AP	
Reserves	ST debt		AR	Investments		Other
Retire. income	LT debt		Inventory	Intangible	Accruals	
			Other	Other	Other	

Equity + Net debt = Net operating assets

or

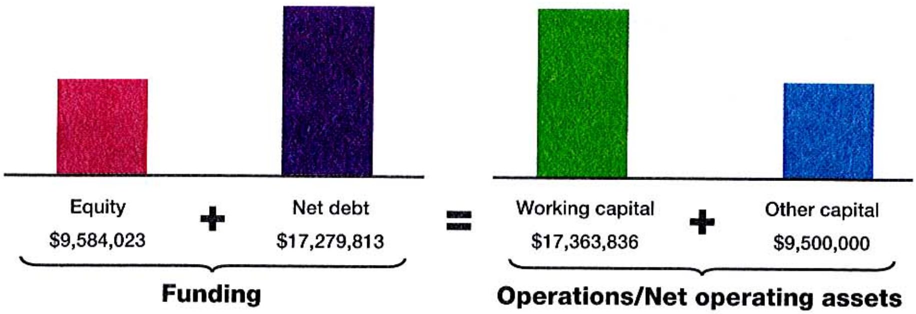
Equity + Net debt = Working capital + Other capital

(where Working capital = Accounts receivable + Inventory [or Work in progress] - Accounts payable)

or

Funding = Operations

If we apply this to Gary's business, we see the following:



This highlights the fact that the bank has put approximately $2 into this business for every $1 invested by shareholders.

The following table details the components of the net operating assets:

Equity	Net debt	=	CA	NCA	CL	NCL
9.6	17.3					
		AR	8.6			
		Inventory	14.3			
		FA		9.5		
		AP			5.6	

Gary's Furniture has received $26.9 million in funding from shareholders and the company's bank. In turn, the management team has chosen to spend it, providing $8.6 million to customers (debtors) in the form of accounts receivable (AR); $14.3 million for stock (inventory); and $9.5 million in fixed assets. Trade creditors have also assisted by providing $5.6 million through the trading terms provided, in the form of accounts payable (AP).

So, how can we tell whether Gary is doing a good job with the $26.9 million that he has received to run his business? The operations should be producing a satisfactory profit given the assets being deployed.

This return on net assets (return on capital) is represented as follows:

EBIT/net operating assets = return on net assets

(EBIT: earnings before interest and taxes)

This is arguably the most useful ratio for measuring management effectiveness. The ratio brings into consideration both the P&L of the business (which provides the EBIT) and the balance sheet.

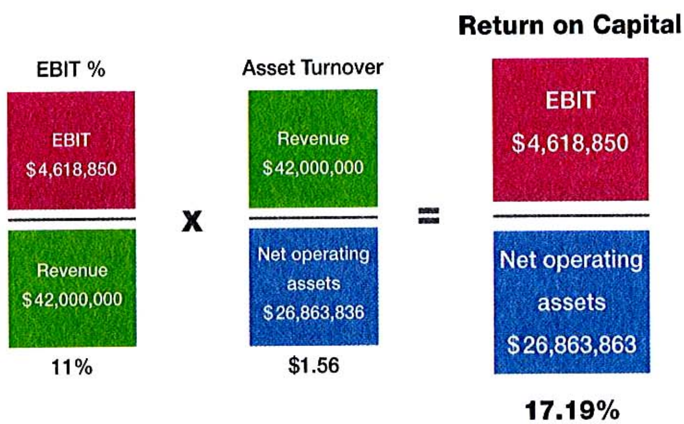
The famous DuPont Formula then takes this ratio and breaks it down into two components:

$$\frac{\text{EBIT}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Net operating assets}} = \text{Return on net assets}$$

Operational Efficiency and Sales Effectiveness

The beauty of the DuPont Formula is that it measures both the operational efficiency and the sales effectiveness of the company. The EBIT/Revenue ratio is a measure of P&L efficiency (i.e., how much profit is produced from every $1 of revenue). This translates into a measure of how efficiently you're operating and tells you if you are squeezing the most profit from every dollar of revenue.

In turn, the Revenue/Net operating assets ratio is a measure of balance sheet effectiveness known as asset turnover. It also is a key indicator of sales effectiveness — telling you how much revenue the business can generate from the least amount of assets or investment.



The calculations show that Gary's business produced a return on capital in 2013 of 17.19%. This falls short of our expectation of good business performance. By breaking down the performance into profitability and asset turnover, we see that Gary is producing very strong profits. Anything over 10% is good for a business like Gary's, based on Greg Crabtree's definitions of profit from the previous chapter.

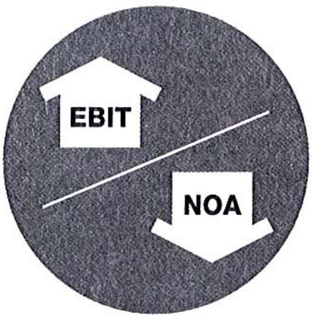
However, Gary's Furniture is not performing in asset turnover. A business in Gary's industry should expect to produce between $2 to $3 worth of revenue per $1 of net operating asset investment. Gary is producing only $1.56. His balance sheet is carrying too much unproductive capital.

Most businesses that we see do not give regular consideration to their balance sheets. As these equations show, business leaders who ignore this information are missing a major determinant of how successful they are and where opportunities for improvement might lie.

Minimum Return on Assets

What is a good return? Well, the answer is a relative one, as it will depend on the alternative investment choices available to investors. To keep it simple, however, midsize businesses should target at minimum a 30% return on net assets. If you are not achieving this, you need to consider whether the EBIT you are producing from the revenue generated is sufficient, or whether the business is producing enough revenue for the assets being deployed. If not, your investors (that includes the owners!) might be better off investing their money elsewhere.

Return on Net Assets

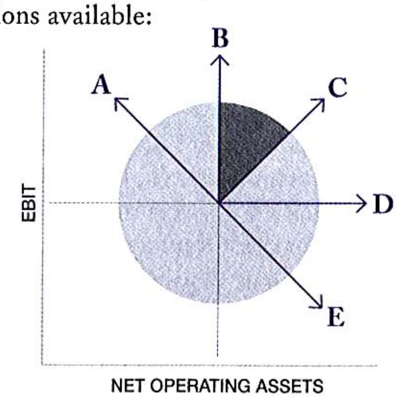


"Midsize businesses should target at minimum a 30% return on net assets."

As a business owner, you should also consider that equity is the most expensive source of funding and that it is usually cheaper to source debt financing, keeping in mind Greg Crabtree's caveats in the previous chapter. Either way, to improve returns, *it is mission-critical over time that management grow EBIT faster than the investment in net operating assets.*

Your Return Is a Measure of Your Strategy

Your return on assets is ultimately a measure of the success of your strategy. If your return is not at the appropriate level, then management has five possible options available:



If you grow EBIT and net operating assets at the same rate, your business will travel along line C (see right), and you can expect the same return over time.

If you grow EBIT while keeping net operating assets constant, you will travel along line B, and returns will increase. If you increase EBIT and reduce net assets, then you can expect an even greater increase in returns. However, this route, option A, is not likely to be sustainable in the long term and is used as a dramatic change strategy to get short-term relief.

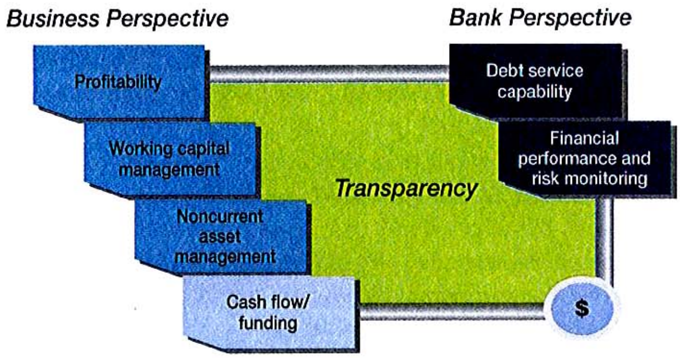
Companies can also choose to leave EBIT the same and increase net operating assets (option D) or to reduce EBIT and increase net operating assets (option E). These are usually strategies deployed during major investment periods, when you invest in new infrastructure knowing that you will enjoy significant increases in EBIT in the long term.

Generally, businesses need strategies that focus performance between B and C, where you are increasing EBIT faster than you are growing net assets and, consequently are growing returns.

The 4 Drivers

So far, we have learned that it is possible to measure success using ratios that measure returns, yet as a manager, you can't change returns directly. You need to modify aspects of the business — the drivers, if you will — in order to change your returns.

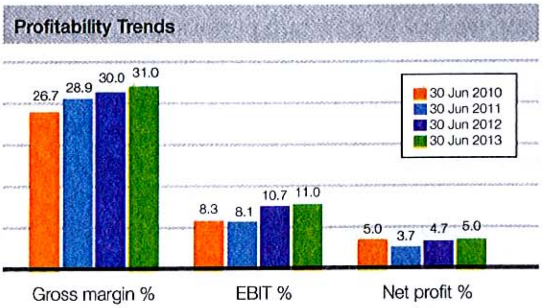
There are 4 financial drivers. These four are represented under the "Business Perspective" in the diagram below. And they inform the bank and investors about the two areas represented under the "Bank Perspective." We'll next take a look at each of these key financial drivers from the business perspective.



Driver #1: Profitability

Most businesspeople are focused on profitability and generally do a good job generating positive results, like Gary. As Greg Crabtree noted in the previous chapter, the first place to focus in improving cash is increasing profitability, and with Crabtree's Simple Numbers, Gary might do even better (see below).

Profitability	30 Jun 2012	30 Jun 2013	Change
Revenue	35,000,000	42,000,000	+7,000,000
Revenue growth %	11.11	20.00	+8.89
Gross margin %	30.00	31.00	+1.00
Overheads %	19.29	20.00	+0.71
EBIT %	10.71	11.00	+0.29
EBIT	3,748,860	4,618,850	+869,990
Net profit %	4.72	4.96	+0.24

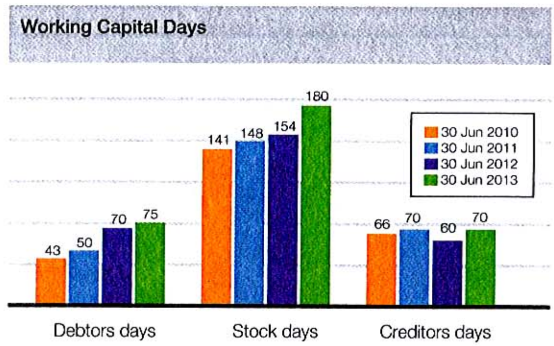


Driver #2: Working Capital Management

Working capital is the amount of cash that your business requires to trade, and is generally consumed by two major current assets: your debtors (AR) and your inventory. Your trade creditors will fund some of this, so we always subtract AP from the other two figures when calculating working capital requirements. Working capital items are measured in days, to represent your current trading terms and requirements.

Because your working capital requires cash, banks will often calculate one additional working capital ratio, known as working capital days. This ratio measures the total days' worth of working capital required by the business and is calculated as (AR + Inventory - AP)/sales x 100. Here are Gary's numbers:

Working Capital Management	30 Jun 2012	30 Jun 2013	Change
Debtors days	70.00	75.00	+5.00
Stock days	154.00	180.00	+26.00
Creditors days	60.02	70.00	+9.98
Working capital days	163.98	185.00	+21.02
Working capital %	37.20	41.34	+4.14
Marginal cash flow	-7.20	-10.34	-3.14
Current ratio	1.88	1.79	-0.09



Driver #3: Noncurrent Asset Management

Together, the key drivers measure the rest of a balance sheet's performance. For the most part, the results are propelled by success in actively managing and improving the measures identified in drivers #1 and #2. Gary's driver #3 results are shown to the right:

Noncurrent Asset Management	30 Jun 2012	30 Jun 2013	Change
Asset turnover	1.63	1.56	-0.07
Return on capital employed %	17.42	17.19	-0.23
Return on total assets %	14.67	14.25	-0.42
Return on equity %	22.03	21.73	-0.30

Driver #4: Cash Flow/Funding

Last, we look at your cash performance, something bankers and investors care most about. This driver helps predict the likelihood that you'll be able to pay them back! Gary's results are at the right:

Cash Flow/Funding	30 Jun 2012	30 Jun 2013	Change
Net debt	14,019,740	17,279,812	+3,260,072
Net cash flow	-3,258,560	-3,260,072	-1,512
Debt to equity	1.87	1.80	-0.07
Interest cover	3.22	3.39	+0.17
Operating cash flow	-162,380	275,761	+438,141

Marginal Cash Flow

Another useful measure of cash flow is marginal cash flow. This ratio calculates the amount of cash retained by the business's working capital machine and compares it to the amount of cash the business produces at the gross margin level.

If we look at Gary's business, we see that it produced a gross margin of $13 million out of the $42 million in revenue that the business achieved in 2013. We also see that the working capital percentage of the business (Working capital/Revenue) is calculated as $17.4 million divided by $42 million.

Marginal Cash Flow for the Next $1 of Sales

Gross margin		**13,020,000/42,000,000**	**31%**
Less			
Accounts receivable	8,630,137		
Inventory	14,291,507		
Accounts payable	(5,557,808)		
Working capital		**17,363,836/42,000,000**	**41%**

The Problem: Growing Broke!

If we consider both ratios as cents from every dollar of revenue, we see that Gary's business produced a gross margin of 31 cents for every $1 of revenue. We also see that the business requires 41 cents of working capital for every $1 of revenue. This means that for every $1 of sales, the business requires 10 cents more working capital than it actually produces in gross margin. In 60% of businesses that we are called upon to diagnose, we observe a similar relationship between gross margin and working capital.

As a result, every time that Gary sold $1 of product, he went backward in cash. This is what we meant earlier when we said he was "growing broke."

To fix this, Gary had a choice of two main strategies:

1. Increasing his gross margin.
2. Reducing his working capital.

If he didn't make a change in the relationship between working capital and profitability, his company was not going to survive. Gary's bank was acutely aware of this problem. In 2013, Gary's revenue grew by $7 million; hence, the bank funded $700,000 of his cash problem. Given that the bank was ceasing to provide further increases, Gary could not continue in this manner.

Our final cash-flow measure highlights in simple terms the key difference between profit and cash flow.

Operating cash flow reflects the impact of movements in your working capital on your earnings before interest, taxes, depreciation, and amortization (EBITDA) over a certain period. Bankers use this measure to calculate your debt service capacity. You should be using it as your means to increase cash for growth, distributions, and other advantages that a cashed-up business will provide.

The following table details the calculation:

Profit vs. Cash Flow

Profit		Cash Flow		Variance
Revenue	42,000,000	Cash from customers	40,082,193	-1,917,807
Cost of goods sold/direct costs	28,980,000	Cash to suppliers	31,405,289	-2,425,289
Gross margin	**13,020,000**	**Gross cash profit**	**8,676,904**	**-4,343,096**
Overheads excluding depreciation	7,468,150	Overheads excluding depreciation	7,468,150	–
EBITDA	**5,551,850**	**Operating cash flow**	**1,208,754**	**-4,343,096**

As you can see from this table, while Gary's management team was congratulating itself for producing an EBITDA performance of $5.6 million in 2013, the business actually posted a cash flow loss before depreciation ($1.1 million) of $4.3 million.

Gary's bankers were not most concerned that cash-flow performance was poor. They were alarmed by the fact that Gary's team didn't even know what was going on.

The underlying business was strong, and the cash-flow performance could be fixed with some minor tweaks. To do this, we needed to work out what financial changes were possible. This is where what we call "The Power of One" becomes a useful tool. But first, back to the bank.

The Bank

Through our analysis, we were able to highlight a number of points that were hurting the banking relationship, to Gary's surprise:

1. The bank had $2 in the business for every $1 invested by shareholders.
2. In Gary's case, volume is detrimental to cash. The more Gary sold, the worse his cash got (his gross margin percentage was 31%, while his working capital percentage was 41%).
3. Gary didn't have the cash capacity to repay the bank. His operating cash was $1.2 million in 2013, and yet he still had tax of $1.2 million, his interest bill was $1.4 million, and he had also purchased $1 million of fixed assets.

"Gary's bankers aren't the idiots he thought they were!"

Perhaps Gary's bankers aren't the idiots he thought they were!

The Power of One and the 7 Levers

Managers adjust the 4 drivers by tweaking the 7 main financial levers available to them to improve cash and returns in the business:

1. **Price:** You can increase the price of your goods and services.
2. **Volume:** You can sell more units at the same price.
3. **Cost of goods sold (COGS)/direct costs:** You can reduce the price you pay for your raw materials and direct labor.
4. **Operating expenses:** You can reduce your operating costs.
5. **Accounts receivable:** You can collect from your debtors faster.
6. **Inventory/work in progress:** You can reduce the amount of stock you have on hand.
7. **Accounts payable:** You can slow down the payment of creditors.

So that you can see how to make use of these tools, it's helpful to understand the benefit to cash if either a 1% or a one-day change is made to each of these levers. We call this "The Power of One." Once armed with this information, management can construct a plan that focuses the business on achieving a particular cash or return outcome using key performance indicators (KPIs) around these 7 levers.

When we calculated Gary's Power of One, we found the following results:

The Impact of 1% and One-Day Changes Across the Board

Your Power of One			Net Cash Flow $	EBIT $
Your current position			-3,260,073	4,618,850
Your Power of One	- 1.0 +	Reset	**Impact on Cash Flow $**	**Impact on EBIT $**
Price increase %	- 1.0 +	%	333,699	420,000
Volume increase %	- 1.0 +	%	-43,438	130,200
COGS reduction %	- 1.0 +	%	377,137	289,800
Overheads reduction %	- 1.0 +	%	84,012	84,012
Reduction in debtors days	- 1.0 +	days	115,068	–
Reduction in stock days	- 1.0 +	days	79,397	–
Increase in creditors days	- 1.0 +	days	79,397	–
Your Power of One Impact			**1,025,272**	**924,012**
Your Power of One			Net Cash Flow $	EBIT $
Your adjusted position			-2,234,801	5,542,862

This table shows that if Gary were to improve every driver by 1% or one day, the positive impact on cash flow would be more than $1 million, and EBIT would improve by more than $900,000. In reality, improving all drivers isn't feasible (at least, not simultaneously). This is where management should start to set specific goals: combinations and increments of the 1% and one-day changes that are actually achievable.

In Gary's case, we set the following combination:

The Impact of Customized Changes

Your Power of One			Net Cash Flow $	EBIT $
Your current position			-3,260,073	4,618,850
Your Power of One	- 0.0 +	Reset	**Impact on Cash Flow $**	**Impact on EBIT $**
Price increase %	- 1.0 +	%	333,699	420,000
Volume increase %	- 0.0 +	%	0	0
COGS reduction %	- 0.0 +	%	0	0
Overheads reduction %	- 2.0 +	%	168,023	168,023
Reduction in debtors days	- 5.0 +	days	575,342	–
Reduction in stock days	- 15.0 +	days	1,190,959	–
Increase in creditors days	- 0.0 +	days	0	–
Your Power of One Impact			**2,268,023**	**588,023**

Your Power of One			Net Cash Flow $	EBIT $
Your adjusted position			-992,050	5,206,873

While the changes to profit were not large, the true value for the business came from the changes to the working capital. If the business could reduce its debtors (AR) by 5 days and its inventory by 15 days, more than $1.7 million of additional cash would be available to the business to reduce its debt and rebuild its relationship with the bank. Neither move was seen as a stretch. And overall, these changes would reduce the negative cash from $3.3 million to just under $1 million, a substantial improvement.

The next step was to turn these changes into a formal KPI structure against which the business could measure its progress. The first two tables on Page 233 were constructed, with the right-hand columns representing good, average, and bad results.

The ideal profile was constructed to guide management and provide a means for simple comparison against actual results. Ranges were set so that Gary's management was able to construct a monthly results table, which demonstrated in simple colors how the company was doing in light of its KPIs set.

1 - Profitability	Ideal Profile	G	A	B
Sales %	100			
Gross margin %	30	>30	28-30	<28
Overheads %	20	<20	20-22	>22
EBIT %	10	>10	8-10	<8

2 - Working Capital	Ideal Profile	G	A	B
AR days	60	<60	60-70	>70
Inventory/WIP days	90	<90	90-100	>100
AP days*	60	—	—	—
Working capital %	22	<22	22-25	>25

**Your good, average, and bad results will depend on your relationships with your suppliers.*

3 - Profitability	Ideal Profile	G	A	B
Sales %	100			
Gross margin %	30	31		
Overheads %	20		20	
EBIT %	10	11		

4 - Working Capital	Ideal Profile	G	A	B
AR days	60			75
Inventory/WIP days	90			180
AP days	60		(70)	
Working capital %	22			41

Gary's opening results are shown in tables 3 and 4.

By color-coding the results in green (for good), yellow (for average), or red (for bad), the team could get a very quick visual assessment of its performance. The more results were green, the more cash the business was producing. The more red and yellow we saw, the worse the cash performance.

Gary was told to roll out this program across all aspects of his business, so that everyone knew the parameters for success and the progress the company was making. He focused his sales team on the sales and gross margin results, since it had responsibility for product discounting. The buying team looked for products that would enhance gross margins. The finance and HR units kept an eye on operating expenses. Both the sales team and finance monitored AR. Meanwhile, the warehouse group monitored and reduced stock, and finance focused on when the company paid creditors (AP).

Working together, with clear definitions of success — and using Miltz's inexpensive online software tool at *www.cashflowstory.com* — Gary's team turned around the business cash flow very quickly. The company has now moved to a much more favorable position with its bankers, who were astounded by the business's rapid turnaround and significant debt reductions. Today, Gary has a standard reporting format that he uses to inform his board. It's available at *scalingup.com.*

As mentioned in the beginning of this section, you can get by with decent People, Strategy, and Execution, but not if you run out of Cash. All growth firms hit bumps in the road (or craters!). Having sufficient cash is key to surviving another day. We hope the ideas, tools, and techniques covered in this section help you through the rough times and fuel your good times as you scale up your business.

NEXT STEPS
5 Things to Do Now

Thank you for reading *Scaling Up*. To jump-start implementation and benefit immediately from the ideas in this book, here are five things to do now:

1. **Have your entire leadership team (and employees) read or listen to the book.** And Verne's entire 2.5 day Scaling Up course is online at *www.growthinstitute.com*. This will give everyone a common language and context for implementation. Then complete a complimentary 4 Decisions Assessment and decide which of the four — People, Strategy, Execution, or Cash — to pursue first. Go to that section of the book and focus on reading and implementing one chapter per month for the next quarter. The assessment, list of public (or private) workshops, and bulk discounts on books are available at *scalingup.com*.

2. **Form a weekly "council."** In addition to organizing a weekly management meeting, assemble a few key leaders to discuss strategies and the bigger opportunities and challenges facing the company. Go to Pages 108-109 to review the details of this crucial weekly "talk time" routine. Focus on completing the 7 Strata of Strategy worksheet; assembling a list of influencers; and working through the 4Ps or 4Es of marketing.

3. **Launch a Quarterly Theme.** Choose a measurable goal that addresses some choke point in the business (something keeping you awake at night), and focus the entire company on achieving it in the next few weeks. There's no need for a fancy theme if you're short on time. Put up a whiteboard in a common area of the company, and start tracking progress via the daily huddle. Then host a celebration at the end. Pick a goal that's challenging but doable, so the team tastes success quickly.

4. **Start the daily huddle.** Begin by holding a daily huddle for the executive team. Then, when these leaders are comfortable with the routine, let them implement it with their respective teams, cascading this crucial communication rhythm down through the organization. Share specifics, but don't fall into the trap of problem-solving, and keep these initial huddles to 15 minutes or less.

5. **Plan your first quarterly or annual offsite (best if facilitated).** Set the dates for your next strategic planning session and start preparations — employee and customer surveys, completion of the SWOT by middle management and completion of the SWT by the top leadership team. Once at the offsite, start filling in the boxes of the various one-page Growth Tools. Focus initially on the basic decisions represented on the Vision Summary worksheet (Core Values, Purpose, Brand Promises, BHAG®, and Priorities) and choose a couple of habits from the Rockefeller Habits Checklist to implement next.

Most important, relax with the process. Thousands of companies have successfully implemented the Rockefeller Habits.

One Step at a Time

Whatever you do, avoid doing everything all at once. Our 4D Framework is a process of working on one aspect of the business at a time so no one gets overwhelmed. It generally takes two to three years for all the tools, techniques, and habits to become part of the company's DNA, and another two to three years to truly master the use of them.

It is critical to pick someone to drive overall implementation of the Rockefeller Habits. For many founders, it might be best to give this accountability to your #2 in command. Verne wrote a column specifically for entrepreneurs on how to "Hire the Right #2." Go to *scalingup.com* to download a copy.

You're Not Alone — Coaching, Learning, and Technology

To support and speed up your implementation of our tools and make the process more enjoyable, we've built a team on six continents offering a variety of services, including:

Coaching: No one has ever achieved peak performance without a coach. If you need help implementing these tools, we can give you access to our elite team of certified coaching partners spanning the globe. Utilizing a coach fast-tracks implementation and takes a load off the leadership team, so you're generating significant revenue and profits much sooner. Book a complimentary 30-minute call for a debriefing on your 4 Decisions Assessment.

Learning: Book your team into a one-day public or private Scaling Up workshop. Take the idea further, and have a member of your team earn a Rockefeller Habits Master Practitioner Certification through our online learning and coaching program. This person can support implementation internally.

In addition, we can offer you an extensive online array of accredited short courses, taught by top business thought leaders, to provide you and your management team with the kind of continuing business education in leadership, marketing, sales, hiring, etc., that keeps you ahead of the competition. You can access all of this from the comfort of your desk or home.

Technology: We offer an online software-as-a-service (SaaS) management accountability system called Align, which has more than 3,000 users. It's the CEO's (or COO's) tool for managing the cascading priorities, key performance indicators, and accountabilities that can become an Excel-spreadsheet nightmare when you grow beyond a handful of employees, especially when your teams are spread across multiple locations. We also offer a SaaS called Better Book Club that helps you get employees reading books and applying what they learn to improve your organization.

These support systems typically provide a 10x return on your investment. Information is available at *scalingup.com*.

Who Will Succeed

In 2002, the year *Mastering the Rockefeller Habits* was first published, Verne hosted the 10-year reunion for the "Birthing of Giants" executive program he founded and chaired on the campus of MIT. This program was the genesis of what you've learned in this book. During the Q and A session, one of the alumni asked him a key question: *"Over the years, you have seen many business leaders succeed and fail. Have you noticed anything specific about those who made it to greatness?"*

Verne's answer to that question is the same today. Success belongs to those who have these two attributes:

- An insatiable desire to learn
- An unquenchable bias for action

Those who win are constantly looking for better ways to do things and to improve. They don't sit back and let others pass them by. They use their tools and resources to attack issues and make things happen.

It's that simple. Want to succeed with this book and your business? Keep on **learning** and **acting** as you scale up.

Key Resources in *Scaling Up*

NOTE: *Some websites require that you register or pay for access to the full text of articles.*

"Secrets From Apple's Genius Bar: Full Loyalty, No Negativity"/Yukari Iwatani Kane and Ian Sherr/*The Wall Street Journal* 57

"How to Create Scorecards for Topgrading"/ Toby Jenkins/Bluewire Media Web Strategy Blog 60

First, Break All the Rules: What the World's Greatest Managers Do Differently/ Marcus Buckingham and Curt Coffman 61, 80

Change to Strange: Create a Great Organization by Building a Strange Workforce/Daniel M. Cable 61

Assess Systems' pre-employment tests and Objective Management Group's Sales Assessments 65

Who: The A Method for Hiring/ Geoff Smart and Randy Street 65

Topgrading: The Proven Hiring and Promoting Method That Turbocharges Company Performance/Bradford D. Smart 65

Certified Master Practitioner training in Topgrading/*scalingup.com* 65

Drive: The Surprising Truth About What Motivates Us/Daniel H. Pink 70, 72

Peak: How Great Companies Get Their Mojo from Maslow/Chip Conley 71

"How Netflix Reinvented HR"/ Patty McCord/*Harvard Business Review* 72-73

StrengthsFinder assessments from Gallup Strengths Center 74

Now, Discover Your Strengths/ Marcus Buckingham and Donald O. Clifton 74

Trombone Player Wanted/a six-DVD series/ Marcus Buckingham 74

The One Thing You Need to Know... About Great Managing, Great Leading, and Sustained Individual Success/Marcus Buckingham 74

Good Company: Business Success in the Worthiness Era/Laurie Bassi, Ed Frauenheim, and Dan McMurrer, with Larry Costello 75

Uncommon Service: How to Win by Putting Customers at the Core of Your Business/ Frances Frei and Anne Morriss 76, 116, 117

The New Rules of Marketing & PR: How to Use Social Media, Online Video, Mobile Applications, Blogs, News Releases, and Viral Marketing to Reach Buyers Directly/David Meerman Scott 77, 111

Outliers: Why People Are Successful/ video seminar/Malcolm Gladwell/*scalingup.com* 78

The Happiness Advantage/online video/ Shawn Achor 78

The Weekly Coaching Conversation: A Business Fable About Taking Your Game and Your Team to the Next Level/Brian Souza 79, 80

Lean In: Women, Work, and the Will to Lead/ Sheryl Sandberg 79

Leadership and the One Minute Manager: Increasing Effectiveness Through Situational Leadership/Ken Blanchard, Patricia Zigarmi, and Drea Zigarmi 80

Help Them Grow or Watch Them Go: Career Conversations Employees Want/ Beverly Kaye and Julie Winkle Giulioni 80

Hidden Champions of the 21st Century/ Hermann Simon 85

"Building Your Company's Vision"/ James C. Collins and Jerry I. Porras/ *Harvard Business Review* 96, 98

"The Core Competence of the Corporation"/ C.K. Prahalad and Gary Hamel/ *Harvard Business Review* 98

Lords of Strategy: The Secret Intellectual History of the New Corporate World/Walter Kiechel III 109

Google AdWords Keyword Planner 111

Epic Content Marketing: How to Tell a Different Story, Break Through the Clutter, and Win More Customers by Marketing Less/Joe Pulizzi 112

"Your Career Success Hinges on One Word: Do You Know It?"/Verne Harnish/LinkedIn 112

The Inside Advantage: The Strategy That Unlocks the Hidden Growth in Your Business/ Robert H. Bloom and Dave Conti 112, 113

*How Companies Win: Profiting From Demand-Driven Business Models No Matter What Business You're In/*Rick Kash and David Calhoun 112, 113

"Turning Goals Into Results: The Power of Catalytic Mechanisms"/Jim Collins/ *Harvard Business Review* 115

"What Is Strategy?"/Michael E. Porter/ *Harvard Business Review* 117

ROAR! Get Heard in the Sales and Marketing Jungle: A Business Fable/ Kevin Daum with Daniel A. Turner 117

"The X-Factor"/Verne Harnish/*Fortune* 119

*Built to Last: Successful Habits of Visionary Companies/*Jim Collins and Jerry I. Porras 120

The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change/ Stephen R. Covey 133, 149

*The Balanced Scorecard: Translating Strategy Into Action/*Robert S. Kaplan and David P. Norton 135

The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business/ Clayton M. Christensen 138

"Get in the Game" workshop/Jack Stack 157

Bringing Out the Best in People: How to Apply the Astonishing Power of Positive Reinforcement/ Aubrey C. Daniels 159

*Big Data: A Revolution That Will Transform How We Live, Work, and Think/*Viktor Mayer-Schönberger and Kenneth Cukier 162

"Growth as a Process"/ Interview with Jeffrey R. Immelt by Thomas A. Stewart/*Harvard Business Review* 163

*The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World/*Fred Reichheld 170

"The Happiest Man in Detroit"/ Keith Naughton/*Bloomberg Businessweek* 172

Titan: The Life of John D. Rockefeller, Sr./ Ron Chernow 175

"CEO of the Year: T. Boone Pickens"/ Kerry Curry/*D CEO* 175

Managing Up: How to Forge an Effective Relationship With Those Above You/ Rosanne Badowski 176

Competing on Internet Time: Lessons From Netscape and Its Battle With Microsoft/ Michael A. Cusumano and David B. Yoffie 177

Simple Numbers, Straight Talk, Big Profits! 4 Keys to Unlock Your Business Potential/ Greg Crabtree with Beverly Blair Harzog 195, 207

*The Customer-Funded Business: Start, Finance, or Grow Your Company With Your Customers' Cash/*John Mullins 200

"High Stakes Negotiation"/online course/ Victoria Medvec/*scalingup.com* 202

"Finding Money You Didn't Know You Had"/ Verne Harnish/*Fortune* Small Business 204

"Right Away and All at Once: How We Saved Continental"/ Greg Brenneman/*Harvard Business Review* 209

Microsoft MapPoint software (to be replaced by Bing Maps on Jan. 1, 2015) 209-210

*Intellectual Capital: The New Wealth of Organizations/*Thomas A. Stewart 210

"Hire the Right #2"/ Verne Harnish/*scalingup.com* 236

An Index of Selected Terms, People, Companies, and Authors in *Scaling Up*

NOTE: *In the case of terms and topics mentioned throughout the book, this index lists major references.*