Business Killers: Common Mistakes That Threaten Your Company

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Thank you for the kind introduction.

Thank you all for being here. I consider it a great honor that you have taken the time to come here today. You had a choice, you chose to be here, and I really appreciate that. I also thank the leadership and members of the Houston CPA Society for extending me this privilege.

Usually, when I speak at conferences the topics are bright and cheery, that have positive words like accelerating growth, increasing profitability, leapfrogging competition, mastering the sales process, getting something for nothing with no-cost marketing, getting offshore outsourcing right the first time.

But today, the title of my talk has that ominous sense of fear and dread: *Business Killers: Common Mistakes that Threaten Your Company*. Business Killers is a wonderful title – sinister, cold, and mysterious. I hope my talk is half as interesting as a thriller!

So, here is a preview of my talk. We first start with credits, an introduction, followed by a business framework where I identify potential areas where these killers can lurk and the process by which I help my clients discover them, and finally I will use this framework to discuss six case studies.

When I am done I will show you that *killer mistakes* can be avoided if <u>we</u> aim before fire, ask three questions with an open mind before we shoot. These questions are– Where are we? Where *should* we go? And, how do we get there? This process will help us discover landmines before it is too late.

When I am done, you'll also see that the ultimate winners are firms that understand where value is migrating in their markets, develop competitive business designs, and execute effectively.

INTRODUCTION

I started my career in the upstream oil & gas industry at NL Industries, where I was the first marketing manager for its Measurement or Logging-while-Drilling technology at Sperry Sun Drilling Services. I had a role in the commercialization of this new technology. Today, Sperry Sun is a huge division, multi-billion dollar division of Halliburton.

After Sperry Sun, I ran the North American Operations at a division of Baker Hughes and then joined Landmark Graphics, where I served as the Vice President of Marketing. Landmark was a startup that created a new paradigm with its visualization based 3D Seismic Interpretation. Today, Landmark is a significant (almost a billion dollar) division of Halliburton.

After Landmark, I started Seeta Resources, a consulting firm that focuses on accelerating business growth. Since then, I have helped grow about fifty businesses in a variety of industries – oil and gas, engineering/manufacturing, technology, and services. My clients and I thrive on mistakes of my competition.

The Wall Street Journal of February 16, 2007, had an article on the *Upside of Aging* by Sharon Begley. She wrote, *"The aging brain is subject to a dreary litany of changes. It shrinks, Swiss cheese-like holes grow, connections between neurons become sparser, blood flow and oxygen supply fall. That leads to trouble with short-term memory and rapidly switching attention, among other problems. And that's in a healthy brain.*

But it's not all doom and gloom. An emerging body of research shows that a surprising array of mental functions hold up well into old age, while others actually get better. Vocabulary improves, as do other verbal abilities such as facility with synonyms and antonyms.

Older brains are packed with more so-called expert knowledge – information relevant to your occupation or hobby. (Older bridge enthusiasts have at their mental beck-and-call many more bids and responses.) They also store more "cognitive templates," or mental outlines of generic problems and solutions that can be tapped when confronting new problems."

She continues, *"While younger brains solve problems step-by-step, older brains call on cognitive templates, those generic outlines of a problem and a solution that worked before. It's the feeling you get when you see that a new situation or problem belongs to a class of situations or problems you have encountered before, with the result that you don't have to attack them methodically. Yes, older people forget little things, and may have occasional attention lapses, but their cognitive templates are so rich that they more than hold their own."*

Today, I intend to tap into my *cognitive templates* to share with you common mistakes that can turn into business killers.

But before we talk about mistakes let me share with you the focus of today's talk. The topic is a very broad one and I have chosen to break it into three areas of excellence (Figure 1):

1. Ethical Excellence (All is lost without integrity)
2. Operational Excellence (Cash Flow, Supply Chain, Costs, People)
3. Market Excellence

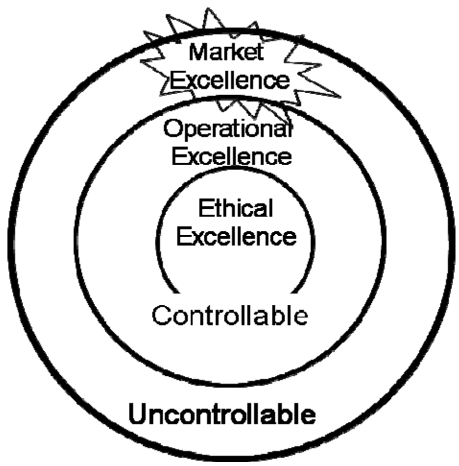


Figure 1

Ethical excellence and operational excellence need no explanation. These areas of excellence have infinite potholes that can kill your businesses. However, achieving ethical and operational excellences are within our own control; achieving market excellence requires perspectives, competencies, and processes to manage parameters that are out of our control. My focus today will be on killer business mistakes in achieving market excellence.

The biggest mistake businesses make in achieving market excellence is that instead of aiming first and then shooting, they shoot first and ask questions later. This happens often. Sometimes even when companies ask questions first and shoot later, they don't ask the right questions or enough questions to come up with the right answers.

The net result is the same. Firms shoot themselves in the foot. The smarter ones learn quickly while the not-so-smart ones hemorrhage and die.

METHODOLOGY

I use a framework for accelerating the growth of my client firms, to achieve market excellence (Figure 2).

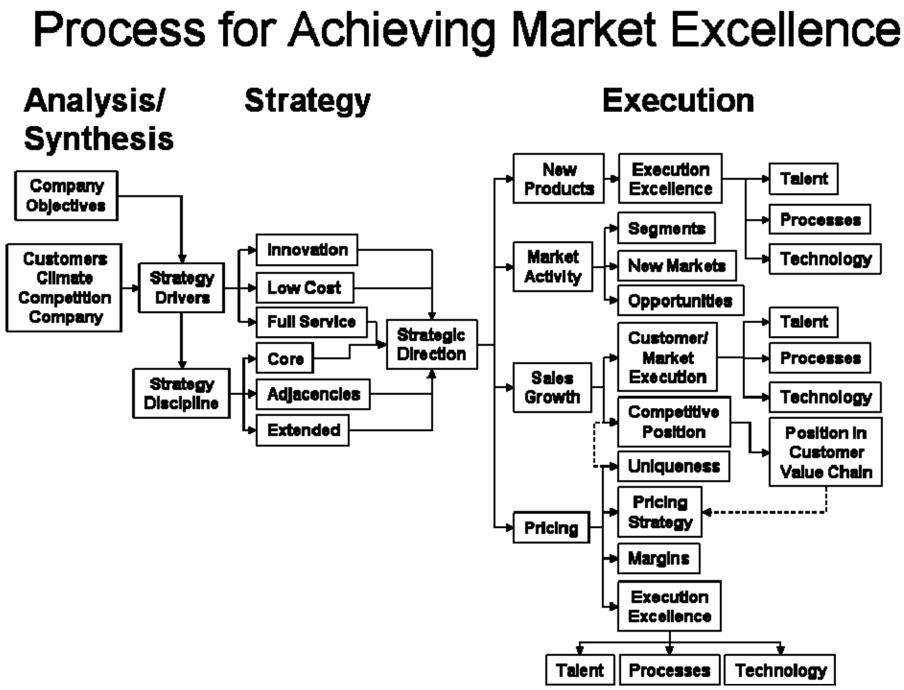


Figure 2

There are three broad areas of attention. First, Analysis & Synthesis; second, Strategic Direction and Discipline; and third, Execution.

My methodology is simple. I pick a 'steering team' from my client firm and I get this team to answer three questions: Where are we? Where <u>should</u> we go? How do we get there? I simultaneously educate and train the client team in various aspects of marketing, strategy and in listening to and understanding customers and their behavior.

The most important ingredient to growth is effective implementation and execution. The secret to execution success is to pick a 'steering team' that consists of customer-facing people from the firm. We populate the steering team from a diagonal cross-section of the firm, not just senior management. I am always surprised by the depth of market knowledge that resides within the rank-and-file of organizations.

This steering team is not only a reservoir of market knowledge but also the champions of change. They know what the firm needs to accomplish. They intimately understand market dynamics and assumptions, and can make minute course changes to meet the firm's objectives.

At the outset, we revisit the underlying assumptions about customers. I ask seemingly generic questions to gain insights about the current nature of customers. Who are your customers, both existing customers and prospects? What do you sell to them? What do they buy from you and your competition? How do they buy? Why do they buy? Where do they buy? When do they buy?

Answers to each question typically reveal a first level of understanding of the current nature of customers, especially about where revenues and margins (value) are migrating. However, delving deeper into the responses usually reveals nuggets that are critical for insights into customer segments, market drivers, needs, trends, patterns, and discontinuities – or "where the puck is going to be".

We then determine competitors' apparent strategies. The first issue is defining competitors in the market space. Our radar screen should be large enough to encompass direct, indirect customers and invisible competitors; the latter always blindside established companies. I expand the client's perspective on who are its competition and its customers.

The 'who, what, how, why, where, and when' of the competitors' customers, their revenues, margins, and growth rates reveal many aspects of their strategies. However, that is not enough. A competitor's organization, customer intimacy, culture, assets, and skills in innovation, manufacturing, technology, finance (access to capital), information technology, management, marketing, and customer base (to name a few) are also important in determining their apparent strategic direction and their business design. In the marketplace, it is always a battle of 'business designs!'

While competitive analysis is somewhat objective, done from a distance, with limited information, self-analysis of our own firm tends to be subjective. We tend to be ultra-critical of our own firm. The challenge is to create an objective framework for self-evaluation. Typically, the criteria developed to critically dissect the competition easily transfers to objective self-analysis.

Forecasting the weather is a tough science, and predicting the business climate is even harder, because the focus is on elements that are beyond the control of customers, competition, and the firm. Economic, environmental, regulatory, cultural, technological, demographic, political, and other factors have far-reaching consequences for the market place. Therefore, monitoring, detecting, and understanding these issues are critical to identifying relevant trends and discontinuities that, in turn, could create opportunities or threats to Client.

Synthesis of market information into major issues, trends, discontinuities, opportunities, and threats yields a market landscape for a firm to achieve its overarching corporate objectives. Insightful synthesis is more important than detailed analysis; this helps define the firm's strategic direction, with special emphasis on defining the firm's strategic discipline.

These then are translated into specific business objectives in four broad areas: pricing, market share growth, taking advantage of business drivers, and new services. These are then translated into objectives for specific organizational departments involved in delivering services and value to customers.

The most challenging phase for an organization is the implementation phase. The process now becomes internally focused, controlled by the client organization. The inertia of previous strategic directions and practices is significant—the more significant the departure from the existing strategic path, the greater the power of "Not Invented Here" and "This is not the way we do things around here" syndromes.

The biggest hindrance to accelerated growth is the inability of organizations to quickly drop old habits and assume new ones. Also, it takes time to add new capabilities and practices to existing organizations. Therefore, to accelerate revenue and margin growth, we recommend the following:

1. Create a growth-oriented team, seeded with steering team members (Done by now!)
2. Articulate vision and direction quickly (Done by now!)
3. Phased implementation plan focused on:
    a. Initially 'Getting Started,'
    b. Then 'Getting Better' (than the competition) and
    c. Finally, 'Creating a Sharp Competitive Edge.'

This entire process takes about four to five 2-day sessions with Steering Team. I facilitate and guide the process through the point where we articulate the client's vision and direction, and define the objectives in four broad areas: pricing, market share growth, taking advantage of business drivers, and new services.

I believe that for effective execution employees need to take ownership of the final plan. The steering team creates the final plan and I assist them in this process.

BUSINESS KILLERS: COMMON MISTAKES

After decades of experience, I have discovered that major business mistakes and killers are embedded in a few areas (Figure 3).

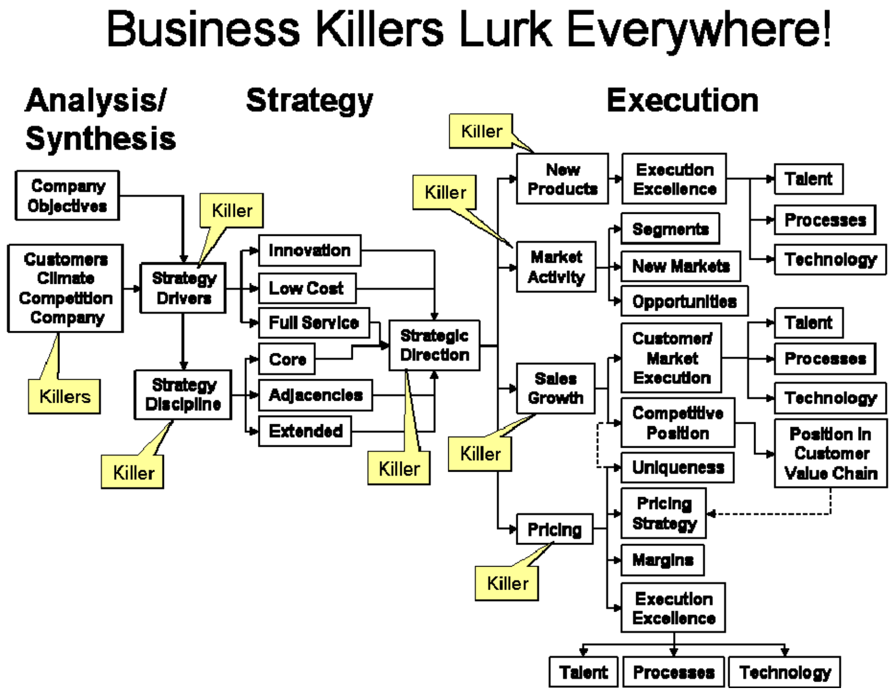
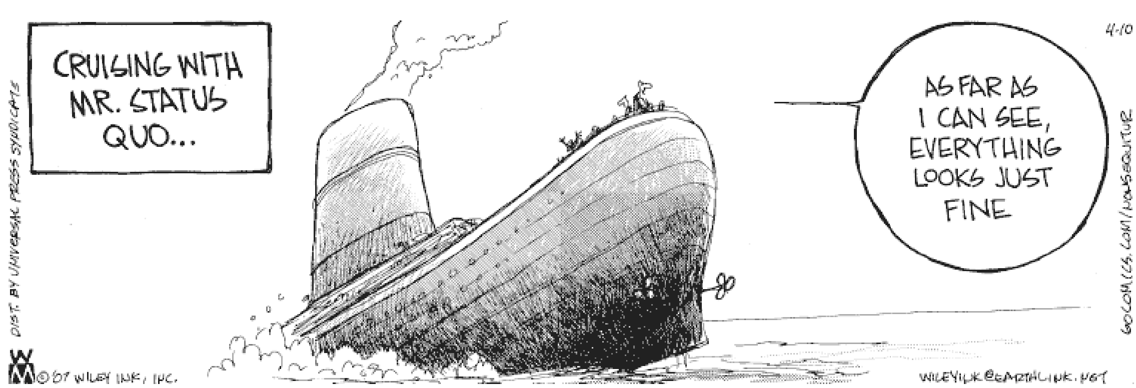


Figure 3

KILLER MISTAKES IN ANALYSIS/SYNTHESIS

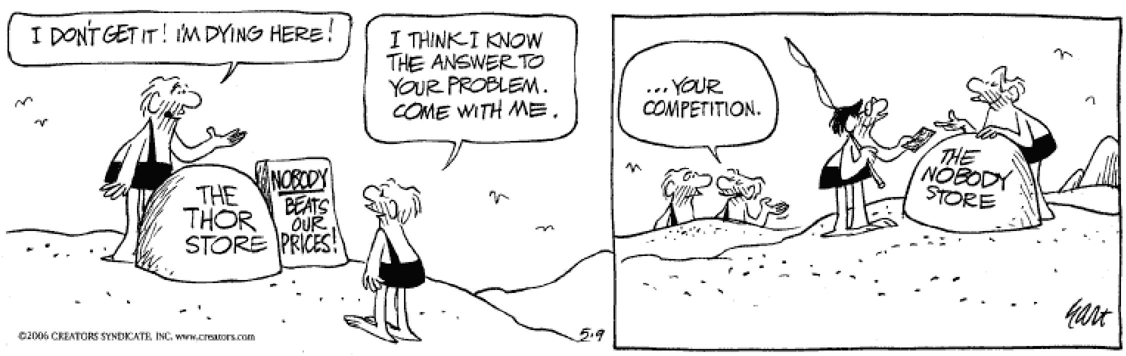
Customers: This is a slow killer. Most firms and their employees get into a rut of habits and operate in their own comfortable old ways while customers evolve and change. And suddenly, one day, they realize that the market they thought they owned has been yanked from under their feet. Customers and markets change constantly, *value migrates* from one market to another, and the biggest mistake companies make is not changing with the times.



Climate: This one is a mass murderer. Most people like to believe that current business trends will continue forever. We all remember the dotcom boom and the last oil boom when we (including yours truly) believed that this market growth will last forever. Or for that matter, the doomsday forecasters who believed that it will only get worse. These are economic trends. However, technology discontinues can wipe out entire industries.

"Thank you, Bentley. We get the picture."

Competition: Most firms assume that competition is restricted to firms that sell similar products. Wrong answer. There are four potential competitors – the direct ones, alternative ways of doing the same thing, your customers and your suppliers. Not paying attention to each one of these four dimensions can be injurious to your company's health.



Company: Your own company's *business design* for "getting and keeping customers" is the way your firm is constructed to deliver value to your customers. Your business design is most vital. Your company's design, the way you promote your firm, choose and acquire customers, design and deliver products and services to them, get paid for these, and reinvest your profits, are all part of your business design. Yes, your IT infrastructure is part of your company's business design. These are the most controllable of the four C's yet because we are so close to the details, we suffer from myopia and create killers of our own accord.

When we get into my case studies, you'll get a better picture of the importance of this phase in creating market excellence in your business.

KILLER MISTAKES IN STRATEGY

Often firms kill themselves by asking the wrong question – Where do we want to go? This is a dangerous question. Your firm's direction is a function of where you are and where you *should* go; synthesizing these four Cs with your company's objectives, gives you a general sense of direction – where you *should* go. This synthesis gives you sense of trends, patterns, discontinuities that will be the basis of your direction.

Simultaneously, there should be a strong sense of your firm's core business and any departure from it should be in adjacent areas where your strengths can help you. Often businesses pick remote markets to compete in, naively assuming that these markets do not have competition. A big mistake is to assume that markets do not have current solutions; they all do.

Similarly, the business design should be part of this *where-should-you-go* decision. There are three orthogonal business designs that you can build on. You can be a leading edge innovator or you can be a quick follower with a host of services that make you attractive or one who has the lowest cost. Apple is an innovator, Microsoft is a heavyweight follower, with market might that stomps out the competition. Southwest Airlines is a low-cost supplier while Continental Airlines is a full-service one. You have to pick a model to excel in and then meet competitive thresholds in the other two dimensions.

But you cannot mix the two! Continental once had a disaster in its hands – it created Continental Lite. For starters, you do not call a predominantly *good* characteristic or trait *lite*. Beer and soda are known to have some significant negative traits in them – sugar and calories. That is the dominant concern of a consumer of these drinks.

When I am a consumer of air travel, my dominant concerns are on time arrival, comfort, and luggage retrieval. Add the word Lite to those expectations and what do I have when I think of Continental Lite? After an uncomfortable, cramped flight that arrives late, the airline has lost my luggage. Any time you add the word Lite to your service, remember that it will be applied to customers' dominant concerns related to consuming the product or service.

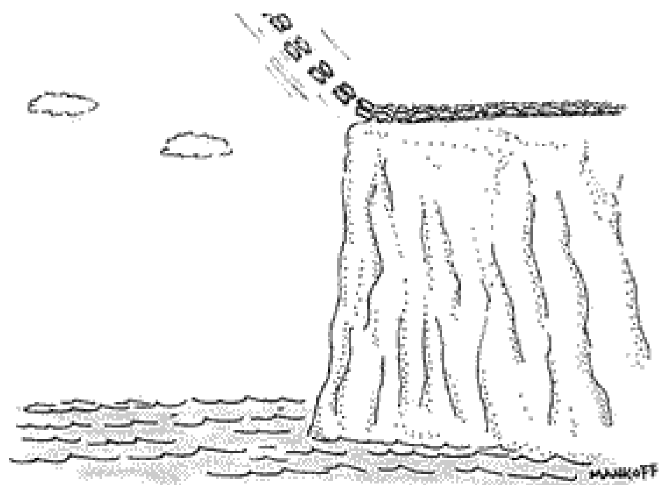
The second major error was that Continental's business design was not one for delivering low-cost solutions. Southwest Airlines was designed to be a low cost supplier. They were merciless in cutting out every cost that would have added to a traveler's ticket price. One kind of aircraft, Boeing 737, twenty-minute aircraft turnarounds, no transfer of luggage, one class of seats -- economy, no meals, only peanuts and coke. And to top it all, to compensate for the low process, they hire staff with a sense of humor, and empower them to make quick decisions to solve customer problems. This mistake almost killed Continental.

KILLER MISTAKES IN EXECUTION

So, once you have looked at the four Cs and then decided on where you *should* go and have picked markets and your business architecture, the next step is to focus on the four market-facing elements that drive your revenue and profitability growth – pricing, market share (or sales growth), business drivers, and new products. Execution on these four fronts is laden with landmines and mistakes that can kill your business. At first, I'll give you an overview and get into some details when we do some case studies.

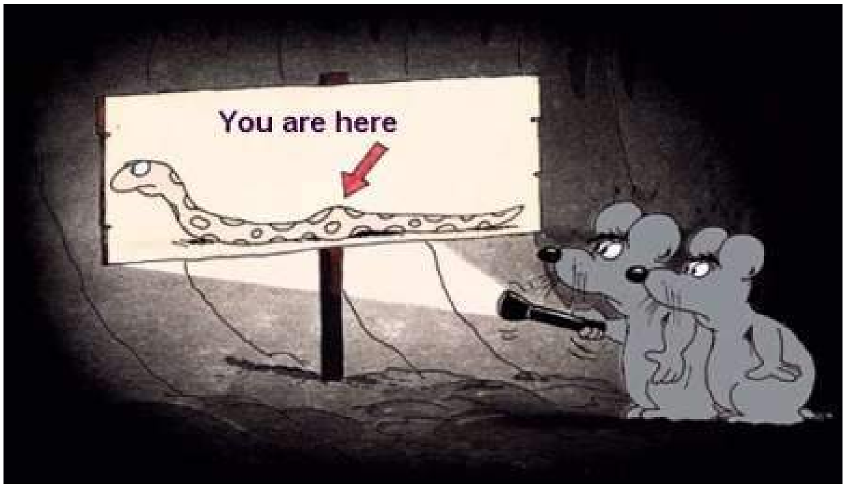
Business Drivers: Mistakes in estimating market activity are critical especially when there are abrupt changes in direction. We live in a non-linear, simultaneous, real-time world where the remotest of seemingly unconnected activities are related to each other and can affect business transactions instantly. Louis Pasteur once said, "Fortune favors the prepared mind." That statement applies today. It is the most prepared company that will benefit from any change in market direction; the ill-prepared ones will simply die. As you all know, it is a lot easier to add costs than shed costs!

About 50% of the competitive battle is in taking advantage of prevailing winds. Conversely, about half your risks are in ignoring them. Misreading them can be disastrous.



WHAT LEMMINGS BELIEVE

The rest of the battle in creating a competitive advantage falls into three inter-connected buckets – pricing, products, and sales/share growth. Each of these has huge room for pitfalls and mistakes.

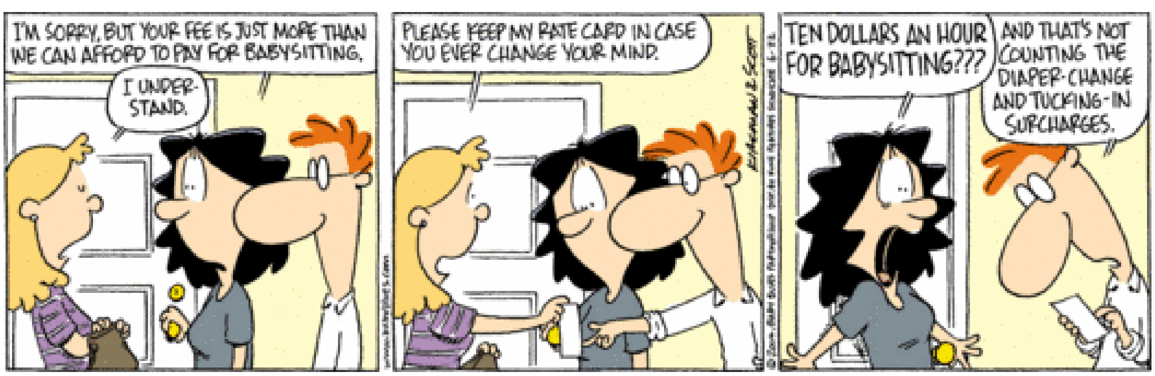


Pricing: The mistake that has the fastest impact on your profitability is pricing. Pricing and margins are great indicators and symptoms of a failing/successful company.

The biggest mistake businesses make in pricing is relying on simplistic *cost plus* models that will destroy your firm. It is a real business killer. It is fast and deadly. You do not get a second chance to recover from low prices. Raising prices in any market is harder than Hercules' twelve labors!

Pricing is defined as your ability to translate the value you deliver to your customers in terms of profitability to your company. The problem is that most firms are unaware of the value they deliver to their customers. They do not ask.

The pricing rule of thumb is "price on value but on what the market can bear." Often, firms have no idea about their competitive pricing position in their markets. Ask yourself the question – when was the last time your firm had a pricing by value review across all products and services, by geographic markets?



Here are a few quick questions: Is your firm simply responding to RFIs, RFPs, and RFQs? Are you in a *tender trap*? Does your firm know how to play a variation of one-upmanship, *specsmanship*? Are your salespeople trained in the fine art of negotiations? If you answered yes to the first two questions and no to the third and fourth, your firm is on the slippery slope to commoditization.

Sales Growth: The major mistake here is *lack of focus,* which manifests itself in three ways:

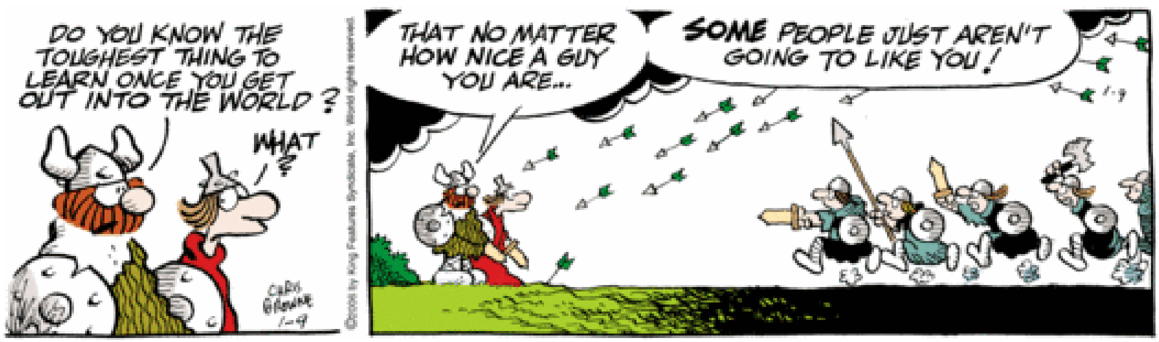
1. Lack of focus on *targeted customers*

2. Lack of focus on *playing to your strengths*
3. Lack of focus on *competitive positioning* in the marketplace

The other broad area that is business killer is a poor understanding of the *marketing and sales* process.

Target customers: Bill Cosby once addressed a graduation class of a high school with this message, "I don't know the key to success, but the key to failure is trying to please everybody." This is so true in business.

Every company and every product attracts different customers at different stages of their lifecycles. When introducing a new product to the market, don't waste your time talking to every customer who'll talk with you. You don't have infinite resources – money and time – to do so. At best only 5% of the market would be interested in this new product or service; 95% of the market will just increase your frustration and blood pressure, seeing that cash and time go down the drain. You'll hemorrhage and die. The only solution is a tourniquet, a focus on those customers who'll buy your service and pay you for it.



The focus changes as the product proceeds through its lifecycle. You pick and gather different customers at different stages of your product cycle.

Another business killer is focusing on the procurement department as if it represented the customer. The purchasing person is only one of four decision makers at a customer – she is the economic buyer. (I said she, because my wife is the economic buyer in my home.) Other buyers at a firm – technical buyer, end-user, and upper management – also have a say in purchase decision. Often, focusing on the procurement process gets businesses in a tender trap that can squeeze the profitability out of your firm and kill you.

Play to Your Strengths: Let me share with you an email that my friend Hubert sent me while I was preparing for this presentation.

This conversation is between Stevie Wonder and Tiger Woods are in a restaurant having dinner.
Woods turns to Wonder and says, "How's the singing career going"?
Stevie Wonder replies, "Not too bad. How's your golf"?
Woods replies, "Not too bad, I've had some problems with my swing, but I think I've got that going right now."
Stevie says, "I always find that when my golf swing goes wrong, I need to stop playing for a while and not think about it. Then, the next time I play, it seems to be all right."
Tiger says, "You play golf?"
Wonder says, "Oh, yes, I've been playing for years."
Woods says, "But you're blind! How can you play golf if you can't see?"

Wonder replies, "I get my caddy to stand in the middle of the fairway and call to me. I listen for the sound of his voice and play the ball toward him. Then, when I get to where the ball lands, the caddy moves to the green or farther down the fairway and again, I play the ball toward his voice"
"But how do you putt?" asks Woods.
"Well," says Stevie, "I get my caddy to lean down in front of the hole and call to me with his head on the ground, and I just play the ball toward his voice."
Woods asks, "What's your handicap"?
Stevie says, "Well, I'm a scratch golfer."
Woods, amazed, says, "We've got to play a round sometime."
Wonder replies, "Well, people don't take me seriously, so I only play for money, and never play for less than $10,000 a hole."
Woods thinks it over and says, "Okay, I'm all for that. When would you like to play"?
Stevie says, "Pick a night."

You choose the turf you want to fight; don't let your competition define it for you. I call it market sovereignty. If you don't have sovereignty over your markets, you'll lose. Honestly, it does not matter how big this sovereign market it. From a small space, you can rule a huge market. Just think Hong Kong, Monte Carlo, Luxemburg, Dubai, Singapore, or the Vatican – all small sovereignties with huge global markets.

A common business mistake is ceding your sovereignty and emulating the competition. It is a huge mistake, which can kill you quickly.

Products: The other equally significant but slower but lethal business killers are products and services. Over time, products and services that stand still, mature and die. They become irrelevant to the marketplace and become easy prey for competitors.

A common mistake that can kill your business is to stand still and not monitor the evolving needs of your customers. This creates a huge gap between what the customers buys and what you sell, which eventually turns into a chasm that neither can cross.

"Joe, these people say they want flesh-colored Band-Aids."

My experience is that customers buy "whole products" while firms think they sell only the "core device or service" and place no value on the *product-surround* – everything outside of the core that is valuable to the customer, such as reputation, warranty, cleanliness, proximity, timeliness, quality, loyalty programs. When a product is new, the surround is not that important but as it matures the need for surround increases dramatically. Ignoring the surround is a fatal mistake; it will certainly lead to a cruel death in the marketplace.

Another business killer is ignoring the informational content of a solution. It will accelerate a business' demise. We live in a transition period, from the industrial age to the information age. We live in a *real-time self-serve* economy where customers seek instant access to information about all aspects of products and services that they consume. Slow firms will go extinct like the dinosaur.

A word about *new products*: Stick to your core business and a few adjacent businesses. Companies that stray from their core businesses suffer badly, if not die.

Customer Service: I cannot move on to the next topic without addressing customer service being a business killer. I believe that interactions between your firm and your customers determine your future. The way you handle these customer interactions, especially those that are charged with anxiety and emotion, are the most critical to your survival, on one hand, and conversely, on your firm's growth. An empowered frontline delivers more margin and revenue growth than can be imagined. A surefire way to kill your business is to prevent your customer-facing employees from doing the right thing to defuse emotionally charged situations quickly. Great customer service during difficult times begets customer loyalty, not programs, and other fads.

Differentiate or Die: Customers have preferences for products that are different in important ways to them. It is called *differentiation*. This subtle aspect is often lost on most businesses that take them down that slippery slope of being the lowest cost supplier or, worse, death. You could everything right but if you don't differentiate, your dead.

Differentiation in itself is not adequate – you have to be different in *important ways* that delivers value to the customer.

This *differentiation in important ways* gathers momentum and turns into *positioning* – the market's mental perception of your product or service, in relationship to competitive products in that market. Every product has a market position that, in turn, builds to good *branding*.

Most non-retail, business-to-business firms are clueless about *positioning* until I mention that it's how your customers describe your company.

Marketing and Sales: The first contact, between the supplier and the consumer, is supposed to be one that generates a strong sense of trust but instead can be Achilles Heel of a company. The shoot-first-ask-questions-later company has the following symptoms.

They hire the wrong people because they don't understand their customers' expectations from a sales organization and hire the wrong people. In an article "What Customers Want" in Harvard Business Review (April 2006), the authors outlined these six characteristics in declining priority:

1. Subject matter & solution expertise (Top Priority)
2. Understanding of customer's business & industry
3. Professionalism
4. Consultative skills & creativity
5. Organizational and Decision making skills
6. Social & communication skills (4,1)

However, when the authors talked with vendors, they believed that the priorities were:

1. Professionalism (Top Priority)
2. Understanding of customer's business & industry
3. Subject matter & solution expertise
4. Social & communication skills
5. Consultative skills & creativity
6. Organizational and Decision making skills

And, what vendors recruited for had these priorities:

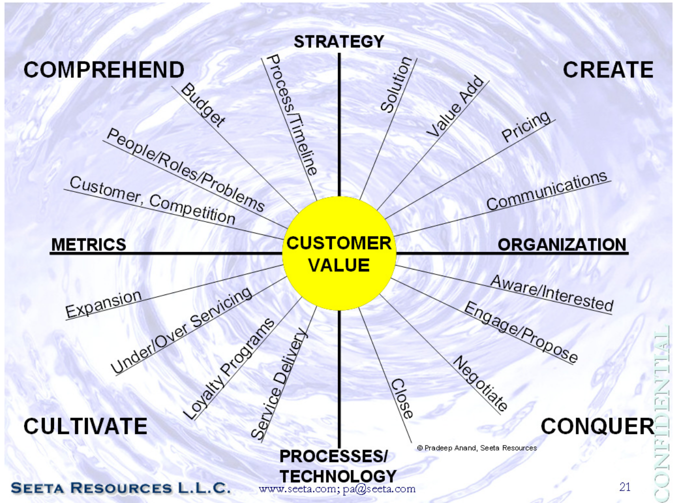
1. Social & communication skills (Top Priority)
2. Organizational and Decision making skills
3. Subject matter & solution expertise
4. Professionalism
5. Understanding of customer's business & industry
6. Consultative skills & creativity

Customers' top three priorities ranked third, fifth, and sixth in recruiting practices. And we wonder why our sales organizations don't deliver.

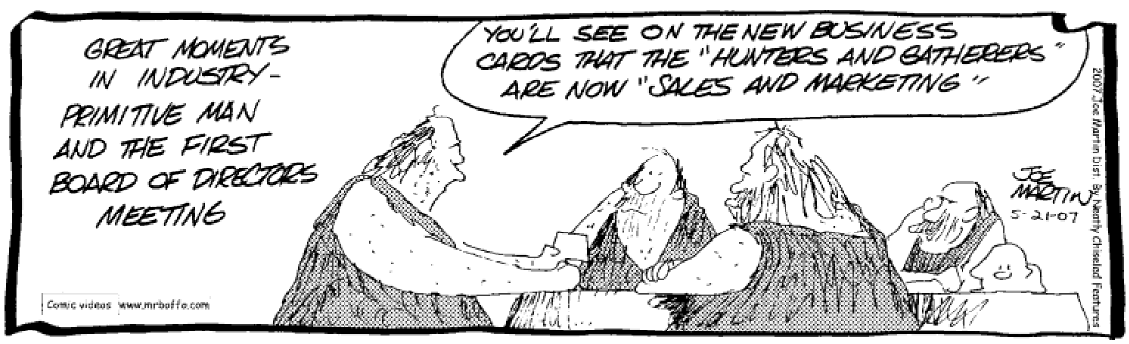
Let's also look from a vendor's perspective. There are four stages of customer acquisition (four more C's!):

1. (Listen) Comprehend: Engaging customers to understand their needs
2. Create Solutions: Developing custom, whole solutions for a customer
3. Conquer/Close: This involves many steps – negotiating with the customer; getting the purchase order; delivering the service/product; invoicing customers, and being paid.
4. Cultivate (for Repeat Business):

Different talents are needed at different stages of the sales cycle and not all of these have *sales* or *development* in their titles.



For example, a service delivery organization has intimate interactions with clients but it is a rare business that uses these talents effectively to generate revenue.



Another mistake made in the selling arena is to assume that the *sales funnel* is a proactive or a real-time tool. It is a rear-view mirror and is great for monitoring and inspecting the selling process. However, to improve selling effectiveness, quality-guru Deming's philosophy needs to be adopted:

"Depending on inspection is like treating a symptom while the disease is killing you. The need for inspection results from excessive variability in the process. The disease is variability. Ceasing dependence on inspection means you must understand your processes so well that you can predict the quality of their output from upstream activities and measurements. To accomplish this you must have a thorough understanding of the sources of variation in your processes and then work toward reducing the variation. Ceasing dependence on inspection forces you to reduce variability."

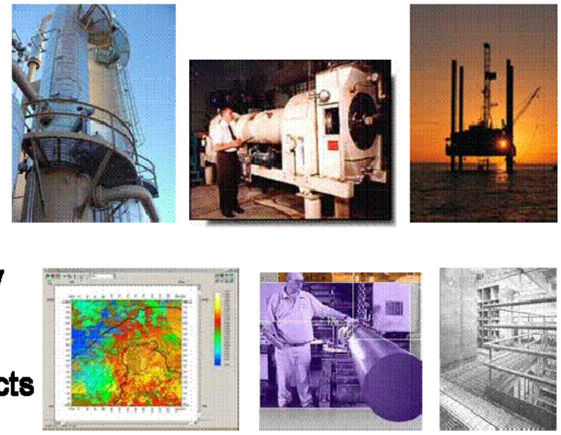
A big mistake is to think that salespeople are in a *sales funnel*. In fact, they are in a *sales vortex* and need help in improving their selling processes.

Finally, a big blunder that businesses make is to think of marketing and sales as separate processes. The reality is that they are integrated, with different tools available at different stages of the sales cycle – awareness, interest, trail, purchase, and repurchase.

Smart companies recognize this and create a market *pull* for their services/products with creative, low cost methods but some use their most expensive resources – salespeople – to *push*, when cheaper and more effective alternatives are available. These practices usually result in high marketing and sales costs and reduce the profitability, and even kill businesses.

CASE STUDIES

- Petrochemical equipment manufacturer
- Pharmaceutical equipment manufacturer
- Oilfield service company
- Software company
- Metal alloy manufacturer
- Engineered products company



SUMMARY

Killer mistakes in achieving market excellence can be avoided if we aim before fire, ask three questions with an open mind before we shoot. These questions are– Where are we? Where *should* we go? And, how do we get there? This process will help us discover landmines before it is too late.

The ultimate winners in market excellence are firms that understand where value is migrating in their markets, develop competitive business designs, and execute effectively.

Yes, I did say that achieving market excellence depends on uncontrollable elements; the reality is that many of these can be controlled by us but we often choose not to do so.