

Building blocks for business growth and success

By Steve Wilson

A few years ago, I made a presentation to the CEOs of *Inc.* magazine's 500 fastest-growing Companies. The audience was shocked when I suggested that they develop a strategic plan that put limits on their growth. I showed them statistics indicating that any company that has significant sales growth for four consecutive years is likely to suffer a severe downturn. Many of the businesses represented on the *Inc.* 500 list fail every year. My own company nearly failed the year after making the list of America's 500 fastest-growing companies! Bigger isn't always better, especially when you outgrow the business structures necessary for success, and even for survival.

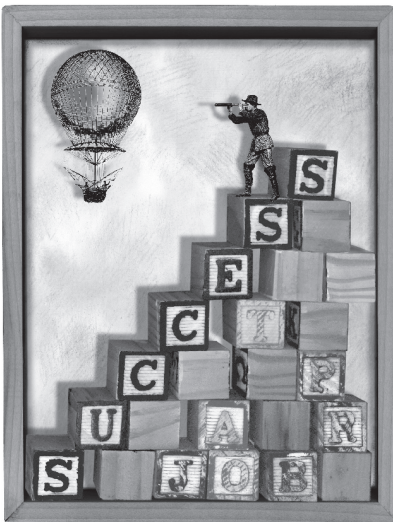
Let's look at what happened to my technical service company, Mid-States Technical, based in Iowa. For five straight years, we doubled our sales. We grew from two employees to more than 100 people. We relocated and expanded our main office three times, and opened four branch offices. At a quick glance, our growth was impressive.

We were succeeding at two out of three rules of good business: Make a profit and generate cash. Unfortunately, we forgot the third rule: Don't self-destruct!

The average seniority of the staff was less than fourteen months. Morale was low, and employee turnover was high. I was working 60 hours a week and hadn't taken a full week

of vacation in two years. Sales dropped by 30 percent; profit disappeared. Key sales people and managers quit. The company was headed for disaster.

Aware of my crisis at work, a friend gave me a book called *The Great Game of Business* by Jack Stack, CEO of SRC Holdings Corp. I read it twice. I traveled to Springfield, Mo., and spent two days with Jack Stack. With Jack's support, I was able to identify how our rapid growth had outrun our structure. We looked at what needed to be done to rebuild the company on a sound foundation that would sustain controlled growth. Within six months, the improvements were in place, and we began a ten-year period of consistent 25 percent annual growth, with little employee turnover and a high profit ratio.



Some growth is important to any business. Your people need to see opportunities for personal advancement in your business, or they'll head for greener pastures.

However, getting bigger won't help you if you aren't getting better. Without a few solid business structures in place, your problems will grow faster than the business, and that can destroy you. Whether you want to be a giant in your industry or launch a new phase of growth, you must take an honest inventory of your business systems to see if you have a solid foundation to support getting bigger or getting better.

Money is the language of business. As the leader of your company, you must know the language better and faster than anyone else. Imagine trying to communicate programs and procedures to your staff if you didn't speak the same language. Your primary role in the business is to plan the future, in financial terms, in order to set goals and budgets, price products and ensure the survival of the business. Your accountant only looks backward to tell you what happened. As the leader, you must understand the past in order to predict the future, without surprises. You don't need a college degree to be able to do this; if you can make change for a dollar, you can do it.

Test your financial literacy. Do you really know what happens to every dollar that passes through your business? I'm not talking about the accounting data that you read on your monthly financial statement. I'm talking about the real money. Every Monday for a month, sit down with paper, pencil and calculator. Use whatever information you have readily available, such as register receipts, bank deposit slips or payroll reports. Estimate your sales for the prior week and all the costs related to running your business for that week, including a proportionate share of monthly expenses that regularly appear on your financial statement.

Do this every week for four weeks. Add up the four-week total and calculate the ratio of expenses to sales for all expenses. Now compare your weekly estimates to actual financial statements for the same period. Do your estimates match the financial statement? There should be no surprises!

Teach financial literacy. Not just to the leadership team, but to every employee in the company. You don't have to share all the financial information, just the numbers that affect operations. Make sure everyone understands the basics of your weekly financial estimates and actual performance measured against goals. Create the link between activity and financial performance results.

Don't delegate this important teaching function. It's crucial for everyone to know that you are in charge of the financial safety of the company, understand it and will plan wisely. You'll become better with the numbers as you teach, and your people will begin to take ownership of their operational and financial goals.

Build your team. Get the right people on the bus and in the right seats before you decide where you want to go and how to best get there. Do you have the right leadership team? Some of your current leaders may not be the appropriate people to take you to the next level of greatness. This is the area where money spent on a consultant may pay great rewards. A good consultant will provide you with an impartial analysis of who you need on your team, and if you have the right people available to meet those needs.

Beyond your team, do you have the right trusted advisors outside the company? I was fortunate to have an advisory group consisting of my accountant, my lawyer, my banker and two other business owners. We met periodically over lunch to discuss my business issues, and they gave me excellent advice and opinions to consider. As an option, you could join one of many executive roundtable groups or other business networking groups.

Eliminate employee turnover. In my thirty years of business experience, I have come to realize that low employee turnover is the one true measure of greatness. Great companies have little turnover; poor companies have high turnover. Turnover is the cause; it's not the result. You cannot create a great business culture when a quarter of your people come and go every year!

Begin by measuring your annual turnover. If you start the year with 20 people, end the year with 20 people, and hired and fired five people during the year, your turnover rate is 25 percent. It doesn't matter if those employees were seasonal or part time; it's all employee turnover.

I have yet to see any "great" company with turnover in excess of 15 percent. Even if you have low turnover, strive for no turnover. I recommend a systematic hiring process called *The New Art of Hiring Smart* that uses technology to identify potentially good employees who are naturally matched to their jobs. The system is not expensive or complicated, and it is guaranteed to reduce turnover and increase productivity.

Write a plan. It doesn't have to be anything complex. I prefer something that looks three years into the future.

Begin by describing how you want the business to look in three years, using measurable numbers for sales, employees, customers, products and services. Then set the goals required for each year to get you to where you want to go.

You should be able to do this in outline form on one sheet of paper. Then share the plan with all your people as your concept for consideration. Listen to their input, gain a consensus, and adjust the plan as necessary to get the people to take ownership of the results. Remember that the goal is to be great, not big.

Keep score. Set up a scoreboard to track performance on the goals you establish in the strategic plan. You don't need to track every number, just a few that measure the overall company performance. Sales, gross margin and direct labor efficiency might be examples. Measure or estimate weekly performance, and post the numbers every week at a team meeting.

Show goals and actual performance for the week and the year to date. Give positive feedback, and encourage discussion on ways to improve performance. Keep the focus on these few critical numbers and how all performance eventually affects them.

Upgrade your business systems. Unfortunately, most businesses invest in expensive systems without first building a solid structure of financial literacy, teamwork and performance measurement. Why would a company with high employee turnover spend more time selecting a new copier than picking a good employee?

There are certainly some good reasons for upgrading your essential systems. However, make sure the current process is systematic, simplified and working properly prior to spending a lot of money to better automate a poor process.



Business growth is exciting, but it is almost always painful. If you focus on growth alone, you run a high risk of failure. Keep your focus on being the best at what you do by ensuring that the essential building blocks are in place. When you're the best, growth and profit come naturally, no matter how big your company is. ☺

Steve Wilson's **CHECKLIST FOR GREATNESS**

- Financial literacy
- Solid leadership
- Low employee turnover
- Long-range planning
- Performance measurement
- Effective processes



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