

Work Less – Earn More

“Is there something I can help you with?” The clerk in the Sears appliance department recited this phrase as he approached me. I proceeded to outline my needs for a new washer and asked to be left alone while I conducted my comparison shopping.

Once I decided upon my purchase (a \$500.00 Kenmore Washer to replace the old one) I asked the following questions;

“Can I move it from the display location to inspect the connections in the back?”

“I’m sorry,” he said,. “They won’t let us do that.”

“If I purchase this today will you waive the \$20 charge for a color other than white?”

“I’m sorry,” he said,. “They won’t let us do that.”

“If I purchase this today will you waive the \$35 delivery fee?”

“I’m sorry,” he said,. “They won’t let us do that.”

It was apparent that there was nothing the sales person could help me with other than to take my order. He was powerless and his greeting established false expectations.

I purchased the washer despite the growing lack of customer satisfaction that developed during our transaction. I purchased it because my previous Kenmore washer lasted 22 years.

Two weeks later I returned to Sears, this time to the Lawn and Garden department. I had been raised on Lawn Boy mowers and, until recently, was loyal to the brand. But I had performed my product research and was ready to change manufacturers.

I was prepared to spend \$400 for a new Sears mower and was excited as I entered the department. My excitement diminished somewhat when I was greeted with the same lackluster statement I heard two weeks ago; “Is there something I can help you with?” I could sense the clerk’s lack of commitment.

Undeterred, I walked to the display rack. There was the model I wanted, tethered to the rack with a plastic tie-down around one axle. Before handing over my credit card I wanted to perform one last check. I wanted to inspect the construction of the product and push it around the floor, you know, get the “feel” of it.

“I like this model,” I said, “can I push it around the floor to see how it feels?”

“I’m sorry,” he said, “They won’t let us do that.”

It seemed to be a mantra chanted by the sales force. The poor fellow was powerless to assist his customers and it was evident in the tone of his voice that he had given up trying to help.

Overwhelmed by the lack of concern for the needs and desires of the customer, I left the store and purchased another Lawn Boy.

This large corporation appears to have developed the same problem that plagues most privately held companies...the need to Control from the top. Entrepreneurs are notorious for their inability to surrender control or empower their employees to satisfy the customer. However, when seen in light of the experience just described, it is obvious how deadly this management style can be to a company.

Richard is the middle aged owner of a company that manufactures lubricants. He knows that in 6 to 10 years the market will be flooded with baby boomers trying to sell

their companies. He also knows that to get the maximum value for his sweat equity he will need to put in place an exit strategy today that will maximize attractiveness to future buyers.

He has a very simple exit strategy consisting of three elements: 1) develop a strong leadership team, 2) develop a focused and dedicated workforce, and use elements 1 and 2 to create the third element, 3) a strong history of earnings growth.

Richard is an enlightened owner. He understands the Zen of control, that to gain control over the competition he must give up control over his company. He realizes that by giving his employees control, by empowering them, he will work less, earn more, and receive a greater gain at time of sale. So he asked me to help him develop and implement his exit strategy.

Our vision was to encourage the employee performance that increased company value. We agreed to empower his employees by encouraging them to collect real-time data on their performance, analyze it and take the appropriate action to improve performance or satisfy the customer, while maintaining focus on profitable growth.

The foundation of this process was a collection of team, department, and company level performance measures. These measures were linked to a self-funding incentive pay plan. Each employee could earn up to 20% additional pay. This measurement and reward plan, called ScoreCard, was designed to create focus and develop understanding on the part of all employees.

Richard wanted to increase the company's ability to create profit by growing revenue and net profit margin over a ten year period. If he was successful, the company would have significantly more value and, perhaps, bring a premium in terms of the value modifier. A higher EBITDA and a premium value modifier meant a higher net-to-owner upon sale (and an easier sales process.)

He knew that, along with a focused and dedicated workforce, he needed a strong management team to accomplish this profitable growth. He also knew that buyers look at the depth of the leadership team when valuing a company. He wanted a management team that would work together and stay with the company for the long haul.

To accomplish this we developed a deferred compensation plan called LeaderShare[®] that offers each executive a predetermined amount (ranging from \$750,000 to \$1,300,000) for attainment of the ten year objective. Each year had realistic but aggressive revenue and profit objectives. During years 1 through 5 the senior management would earn deferred compensation units (DCUs) based on performance against plan. During years 6 through 10 these DCUs would appreciate in value based on performance against plan. In year 10 if the company was on plan in terms of its ability to generate profit, the DCUs would be worth the predetermined amount. Performance below plan would result in lower appreciation.

They are in the fourth year of the plan. While progress has not mirrored the annual revenue and profit plans, they are ahead of target! The ScoreCard incentive plan energized the workforce and resulted in improved efficiencies, reduced costs and new customers. In one instance, \$65,000 of profit was generated from recycling old inventory. The deferred compensation plan focused the leadership team and enabled them to hire a senior technical manager to oversee the development of new products.

Richard doesn't have the luxury of masking faulty management processes with sheer size. He has to be successful with each customer transaction. He knows his retirement depends on developing a company that provides customers with commitment, value, care and a culture of partnership. If he does that he will "Work Less and Earn More."