

The Four Threads

STRONG FUNDAMENTALS GENERATE BUSINESS SUCCESS.
GUARANTEED!

Today, success demands your business excel in four fundamental areas. You must be able to rely upon four strong threads:

1. CUSTOMER FOCUS
2. FINANCIAL DISCIPLINE
3. OPERATIONAL SPEED
4. LEADERSHIP PRACTICE

When these four interdependent threads are properly woven – when each is based on clear, actionable strategies – the result is an integrated business “fabric” strong enough to withstand setbacks and flexible enough to respond immediately to changing business conditions.

Jacquard Associates has articulated some intriguing, challenging, and functional concepts essential to strengthening the threads in your business. We don’t have all the answers, however. The work of applying these fundamentals to the specifics in your organization is yours.

But know this: Understanding and embracing these concepts as central to your business success is where you start.

The FOUR THREADS: A view from the top

When you think of the four threads as critical to a tightly woven company fabric, their interdependencies are undeniable. Each builds upon the other, and there’s no chicken-or-egg ambiguity about what comes first: Customers, your market, are priority one.

Customer focus means customers are a focus throughout the company, not just for sales, and not just for customer service – but remember **all customers are not created equal**.

Financial discipline is second. The substance here has more to do with **cash and return on your capital** than with traditional profitability measures.

Operational speed is basic to satisfying customers and making more money. The faster you deliver, the happier your customer and the faster you get paid. It may be just this simple, but getting there means **analyzing and improving cycle times throughout the company**.

Leadership practice means your executives and managers can make the hard decisions, implement needed change, and **step up to challenges on a daily basis, as a matter of course**.

Now, let’s take a closer look at each of these threads.

Juggling balls in the air. Corraling ducks into single file. There are many metaphors for business management, and all of them say this: You must pay attention to all areas of your business all of the time or pay the price.

Take your eyes off one ball and it falls to the floor. Get your ducks in a row and inevitably one or two wander off.

What if you think of your business as a fabric?

A fabric made up of many threads, each strong in itself, and all interwoven into a pattern that achieves and sustains profitability and growth.

The Four Threads

CUSTOMER FOCUS ~ FINANCIAL DISCIPLINE ~ OPERATIONAL SPEED ~ LEADERSHIP PRACTICE

CUSTOMER FOCUS: It's all about the marketplace.

Make no mistake about it; it is the market that dictates all you do. Consequently, you must make some important decisions about how you'll relate to the market.

How well do people work together in your company?

Customers are the responsibility of sales, right?

Customers don't make it to accounting's radar screen unless their bills aren't paid on time – but can accounting count on sales when they're trying to collect?

Operations? They're back there doing their thing; don't think about changing a process or exploring a new method.

First, Treacy & Wiersema said it best in *The Discipline of Market Leaders*: You must be the low cost producer or you must differentiate, either through superior technology or customer intimacy. For mid-size and smaller companies, low cost leadership is unrealistic; technological superiority is often unlikely. That leaves **customer intimacy as the strategy of choice** for most organizations.

Second, the old saw is absolutely right: The single constant about the market is change.

The market – *your* market – is changing right now. Consumers and business markets alike are changing their habits and their methods. Market geography is changing; the geography of supply is also changing, often moving overseas despite your efforts. That means the players are changing – where were China and Mexico 15 years ago? Demand is changing. Distribution is changing. There is no aspect of the market that is not in flux today – or won't be tomorrow.

You have a choice with regard to changing markets. You may lead change or you may follow. Neither is better than the other. The important thing is to **choose one and then act**.

Third, consider this concept: All customers are not equal. Some buy more than others – a lot more. That makes them more important to your business than customers that buy just a little. What does that mean? It means your **largest customers should not be subsidizing your small customers**. You need to focus on the customers who can move the meter, who can make a difference.

Also be aware of how you respond to your customers. Some customers' demands may seem unrealistic or even foolish. Demands like these can provoke a knee-jerk "That's impossible" reaction from your staff. Be a company that questions its own dogma; listen for possibilities that may be introduced by a demanding customer.

When people stop working as a team, they build FUNCTIONAL SILOS – the islands, the fiefdoms, the compartmented departments, the divided divisions – that stymie communication and make change a challenge.

Your company need not be large to grow functional silos. But you can and must overcome them.

A final fundamental for customer focus: Revise your thinking about how you manage your customer relationships. You can't tether a ship to the dock with a single line, and your **sales representative can no longer be your only connection** to the customers who are your bread and butter.

FINANCIAL DISCIPLINE: If you're not making money, why are you bothering?

Financial discipline is another way of saying that you're in business to make money, so you need to manage with making money as your goal.

Most companies are too narrowly focused on profit. That's the traditional accounting system view. But there's a quicker, more responsive measure of financial success, and that's **how you generate cash**. Simply put, it's how you get cash in the door and how you use it once you get it.

You'll achieve better financial results if you focus your accounting people on cash and on maximizing your return on capital employed.

The Four Threads

CUSTOMER FOCUS ~ FINANCIAL DISCIPLINE ~ OPERATIONAL SPEED ~ LEADERSHIP PRACTICE

Learn to identify – and then eliminate – the baloney surrounding financial analysis and results. How much do you really need to focus on a job's profitability if you're going to ignore credit terms and collections? Don't misunderstand: Profitability is important. But if you **get the money faster** and more reliably, you can accept a lower margin and be more competitive.

Stop worrying about endless analysis; don't focus on determining the precise accuracy of each line item. Instead, deal with the bigger issue, which is your return on investment.

The interdependence of customer focus and financial discipline now becomes increasingly clear. For example, how you negotiate terms has a lot to do with how you grow the cash available to your business. With whom you negotiate terms has a lot to do with how you categorize and manage your customer relationships.

And both customer focus and financial discipline depend significantly on operational speed.

OPERATIONAL SPEED: There is no business cycle that will not benefit from acceleration.

Time is typically your enemy. In almost every instance, the more time that passes, the more things go bad. (The single exception may be employee learning, which ideally only grows with time.)

Consider the impact of plodding cycle times on the various facets of your operation. Inventory degrades, becomes outmoded, spoils. Receivables lose value. Costs rise. Production backlogs build. Delivery slows. According to the American Society for Quality (www.asq.org), the cost of quality may total as much as 30 percent of total costs. Much of this loss can likely be traced to sluggish cycle times.

When you allow your cycle times to escalate, you are **virtually guaranteed to fail your customers**. You'll lay waste to your customer differentiation strategies. And you'll lose the market share you've worked so hard to gain.

Look around. Is there a process in your company that wouldn't benefit from increased speed? Accelerating cycle times – while still maintaining quality – helps you serve your market well and deliver more benefits than any other type of operational change.

Operational speed delights customers (especially those large customers that we're focused on pleasing). It boosts financial results. It demands less working capital.

Why isn't every manager in every organization insisting on slashing cycle times now? That buck stops with company leadership.

LEADERSHIP PRACTICE: It's easy to lead when times are good.

The changes needed to strengthen the four threads in your company present difficult challenges. "The way we've always done it" is often ingrained far more deeply than we expect.

How well do you know your managers and key employees? How do they communicate the vast array of messages with which they're entrusted, from the business plan to department goals to customer service policies to performance evaluations? Is your intent being *filtered* or *amplified*?

CUSTOMERS ARE YOUR
FIRST PRIORITY, BUT
YOU CAN'T MANAGE A
BUSINESS WITHOUT A
FINANCIAL OBJECTIVE.

ACCELERATING CYCLE
TIMES WILL EARN
CUSTOMER LOYALTY
AND HELP GENERATE
CASH FASTER.

The Four Threads

CUSTOMER FOCUS ~ FINANCIAL DISCIPLINE ~ OPERATIONAL SPEED ~ LEADERSHIP PRACTICE

Your organization's leadership must **accept the challenge of transforming the skeptics and naysayers into change agents**. The excuse, "I can't rely on my key managers to make it happen," just won't cut it anymore.

Company leaders have the courage to do what's hard. They raise prices, knowing they'll lose some customers. But they're smart enough to ask whether those customers were a good fit to begin with. They make tough staffing decisions. They make objective product line decisions. They face up to competitive pressures.

It's the **most fundamental responsibility of leadership to make change exhilarating** to open the potential of progress to everyone in the organization.

What these leaders are doing in the process is developing learning organizations. A learning organization is sensitive to the customer and aware of the marketplace. It pays attention to the competition. It makes change and innovation part of the routine. Because of all this, learning companies are growth leaders in good times and strong survivors in adversity.

Eliyahu Goldratt, author of the best-selling business book, *The Goal: A Process of Ongoing Improvement*, was once asked, "How do you manage in difficult times?" His predictable answer, "Don't let there be bad times."

Here's the good news: The kinds of ideas and concepts that we've examined here can be introduced by reasonably simple, practically oriented, interfunctional projects. They can be led in your company by your own managers. And your managers, in the process, will develop communications, infuse energy into their colleagues, and create an infectious excitement that will weave four strong threads throughout your organization.

There are many ways to begin. You could start by visiting the Jacquard Associates website (www.jacquard.com) for a frequently updated list of useful business books and articles and for links to other resources. Or call us at 847.945.8700 to ask your questions and share your comments.

COMMITTED,
COURAGEOUS LEADERS
INSPIRE ENTHUSIASM
FOR CHANGE,
EAGERNESS FOR
PROGRESS, AND
WEAVE A RESILIENT
COMPANY FABRIC.