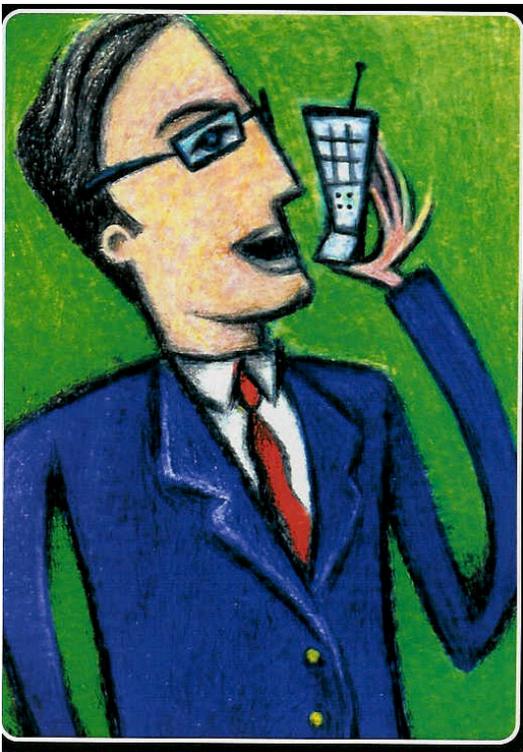


Are You Wasting Your Time?

The secret priorities of high performance CEOs

By Kirk Aubry and Jim Schleckser



CEO Time: More than 70% of CEO time is wasted on the wrong things

On a beautiful spring day, ten years ago, two men decided to leave their jobs and start their own companies. They were alike in several key ways. Both had been above average managers with promising careers ahead of them. Both were bright, creative and hard working. Both started businesses in the IT industry. Both were happily married with three children. And both were filled with ambitious dreams for the future.

Recently, these CEOs met at a wedding of the daughter of a mutual friend. Naturally, they were eager to catch up and "compare notes".

They were still very much alike. Both were still married although one of them had been having some relationship problems. Both still had their businesses.

But there was a difference. One of the men was struggling to keep his company afloat. He worked long hours and was frequently frustrated in his attempts to grow his company. The other man had just returned from receiving a prestigious award recognizing his leadership and his company for rapid, highly profitable growth.

Have you ever wondered what makes a CEO successful?

Is it native intelligence, or talent or dedication? Is it simply that one person wants success more than the other?

The "struggling" CEO actually got a faster start than his former colleague. He quickly formed and began offering a set of products and services that were readily available and, unfortunately, not very different from anything else on the market. He found customers willing to buy from him and needed to staff up quickly to support them. In his opinion, he didn't have time to wait for the "perfect" person to add to his team. He worked diligently to resolve recurring problems that related to product performance and support functions. But often he felt "drawn in" to situations wondering why he had to be involved – why someone else couldn't handle it.

The successful CEO approached his role differently. He carefully chose a part of the IT sector that would challenge him with fewer competitors and a unique, powerful service offering. He diligently selected, trained and worked hard to

retain the very best leadership team he could find. And he spent most of the rest of his time ensuring that his company had world-class processes to deliver on his organization's promise to its customers.

You don't get much disagreement when you ask any good businessperson: What's your most precious resource? The answer is usually: time! For CEOs it's probably even truer. And if you were to ask a CEO why he or she is working on things that don't make much difference to the business you'd probably get, at the very least, a dirty look.

Most business leaders are busy and they'd like to believe they're working on the things that really matter to their businesses. The truth is that many CEOs spend an inordinate amount of time on things that are unlikely to create significant short or long-term improvement. And far too often these same CEOs are ignoring or avoiding the underlying issues that are taking so much of their time and hindering their ability to achieve dramatically higher levels of performance.

Why does this happen? Most CEOs don't have a clear idea of what their job actually is...although very few admit that fact. "Chief Executive Officer" is just a title, and does not come with clear operating instructions. A lot of written material exists on "leadership" but there is very little written on the actual CEO priorities and actions that determine a company's ultimate success or failure.

High Performance CEOs focus most of their time and brainpower on three critical priorities

Through interaction and detailed evaluation of hundreds of CEOs we've identified three priorities that are critical to achieving and sustaining astounding results. Based on the track records of truly high-performance CEOs, those with strong growth and/or superior margins, we've identified a surprisingly consistent set of CEO priorities. The most successful CEOs dedicate at least 60% - 80% of their focus and energy on these areas to position the company for outstanding performance. 50% is a bare minimum, but most CEOs don't even come close. The priorities are:

#1: Select and evolve the right business/profit model

#2: Secure and develop three kinds of talent (individual, team, and external).

#3: Build superior processes in 4 critical areas

**Product Creation
Customer Creation
Production/Service
Support/Overhead**

CEOs that focus the majority of their time and energy on improving the three critical priorities are playing a vastly different and superior game to their CEO peers. In our 10 years of CEO study, we've observed a very direct correlation in the application of CEO time and long-term financial performance.

Most CEOs are too busy and emotionally involved in "doing their business" to be very their own strengths and weaknesses in the three areas. But the exercise is too important to not be done. With that in mind, let's dig deeper into the three priorities.

CEO Priority #1: Select and evolve the right Business/Profit Model

Far too often CEOs refuse to take a candid, objective look at the most important ingredient to a successful enterprise: Do we have a good business? In a surprising number of cases, businesses have been created by opportunities and other circumstances that haven't allowed for rigorous and regular assessments.

How Do You Tell if You've Got a Good Business/Profit Model? Try answering these questions?

What's the current or potential demand/supply equation for your product?

How much demand is out there for your product/service? If it doesn't exist today what's your confidence that you can create it? It helps a lot to have a product that customers love, has ongoing value and is a non-discretionary purchase. It also helps to have a broad set of potential customers who are willing to pay for the value they derive from your product or service.

On the flip side...what is the customer's alternative means of supply? It would seem on the surface that it's preferable to have a very large demand (think hamburgers), but we've found the most profitable businesses have relatively limited demand but even more limited supply.

Adam Aircraft is developing two kinds of airplanes, a twin engine center-thrust propeller plane and a light jet. Demand for the propeller plane is less than 500 units (at \$900,000 each); demand for the jet is probably 3 times that (\$2,000,000 each). But in both cases, thanks to the FAA certification process, Adam Aircraft

is the only source of supply and will be for the near future. The big guys (Cessna) have no interest in the propeller plane (the market is too small) and despite their announced commitment to produce a small jet, they are rightfully concerned that the small jet will cannibalize a sizable portion of their more profitable larger jet sales. Adam's unique advantage is the ability to develop planes more economically that are more easily FAA certified. This gives them clear sailing into a sizable niche market.

What's your recurring revenue percentage?

One of the lessons of the .com bubble was that not all revenue is permanent. Many IT consulting firms were growing at 50%-100% annually and the assumption was that this growth would go on forever. And the public market valuations supported this belief. But the public markets were wrong.

A business is strong when it can count on 70%-80% of its revenue to renew from year to year. Any business below that percentage is inherently vulnerable and it's usually a matter of time before there is a major downside surprise.

Some software companies have now switched to a subscription model. Salesforce.com is a notable example of a company that was formed on the subscription model. Instead of buying software for sales force automation, their customers pay for the service monthly and their customer retention rate exceeds 80% annually.

The best of all worlds is to have a Recurring Revenue Percentage of over 100%. How is this possible? Some companies in our research have

employed a “wedge” strategy, which enables a new customer to start small and buy more as they become more comfortable. Imagine being able to forecast next year’s sales growing by 25% without adding any new customers! That is the power of a strong recurring revenue model.

What are the ongoing profit characteristics?

(Margins, return-on-invested-capital, etc.)

Are your current and future customers willing to pay for the value your product/service offers? Will this change as your product matures or other entrants come on the market?

If you can’t produce sustainable net operating margins of at least 10%, fold the tent and start over. 10% is the bare minimum. Anything less says that your customers don’t really value your product enough to pay for it. There are very few exceptions to this 10% rule (retailers and others that have very fast and predictable inventory turns).

15%-20% are better pre-tax operating numbers and we’ve found a few companies that can do even better.

Pricing plays a huge role in this equation and few companies have really analyzed their pricing decisions and sometimes leave large profits on the table. For example, if you could raise your price by 10% without adding any additional cost, you would turn a 10% pre-tax operating margin into 20%. This simple example is sometimes possible if your offering is truly unique and fills a strong customer need.

What if Your Business/Profit Model isn’t Up to Snuff?

If you determine that your business/profit model is lacking you’ve got three choices:

1. **Sell it** to someone who hasn’t figured out it’s a lousy business or has a strategic reason for buying it
2. **Change** the nature of the business by migrating to a new and more appealing economic neighborhood.
3. **Cut and run** – Seriously, if this is a business model that you determine to be unattractive or unsustainable, find a good way out and get into to a business that’s better. A former boss said it best: “Don’t fall in love with your used car”.

It’s not unusual to see strong leaders use a current business model as a springboard to a better one. Take the example of PharmaFab, a contract manufacturer of cold and flu pharmaceutical products in Grand Prairie, Texas. The company achieved initial success by manufacturing nasal sprays. Along the way, PharmaFab identified a new opportunity with their existing customer base to produce liquids and capsules. At first glance, the transition from sprays to liquids and capsules may appear obvious. However, the technology and processes are significantly different, making this a less obvious transition. Within 24 months the profits from the new products exceeded those from the original products.

Most CEOs do not examine their business/profit model carefully enough. Ask yourself…is this business/profit

model worth investing 5–10 years of my CEO career?

CEO Priority #2: Secure and develop three kinds of talent.

The CEO is the company's Chief Talent Officer. If the business/profit model is sound, the next place to build the business is talent. A lot of has been written about hiring and nurturing "A" players, but we've found that there are actually three types of talent that matter:

1. Individual Talent
2. Team Talent
3. External Talent

CEOs typically pay reasonable attention to their individual talent. But increasingly, knowledge work is accomplished in a team environment. A significant competitive advantage can be built from having your business teams working at a high level.

Also, most of today's products come from a combination of partners (think of all the subcontractors it takes to build a house). Many products are built on strong partner foundations and broken because of weak external partners. We have found a substantial difference that relates to

Individual Talent – Rating your "A's", "B's", "C's"?

It seems like a paradox that some "tough as nails" CEOs can have what seems like a complete blind spot when it comes to assessing the performance and potential of one or more of their direct subordinates. Simply put: they tend to overrate their own team members. It's not uncommon for 360-degree feedback results to show a significant gap

between the CEO's rating and those of the team member's direct reports.

Why does it happen? It takes a rare CEO to admit that he made a key hiring mistake. And mediocrity is the enemy. Most CEOs won't terminate someone who is just ok. But it happens and it can be incredibly damaging to an organization. Have you ever worried about firing someone only to do it and find out that almost everyone wondered what took you so long?

Sometimes, one person can be the "missing link" in an organization. We frequently hear: "We were growing slowly and then Ms. X joined the company and things just seemed to take off." Often the "link" is sales because for most growing companies sales effectiveness and volume is the key limiting constraint to growth. It can also be a missing technical skill or someone with the right operations experience.

There are lots of great tools and techniques for assessing the skill gaps, individual performance and organizational fit of leadership team members. As usual we opt for simplicity in terms of assessing leaders:

"A" Player – These folks are superstars. They regularly excel and frequently exceed your expectations. They give you things and think about things in ways you didn't ask them and often wouldn't have thought of yourself. They're shining examples for others of values and performance. They respect and are respected by their superiors, peers and subordinates. A simple way to check whether you've got an "A" player is to ask yourself a question: "If I could hire anyone in the world to do this job – would it be that person?" If the answer

is no, then the executive is likely not an “A”.

“B” Player – These are your workhorses. They consistently meet your expectations, support others and model company values. Every organization needs them to get the work done. They are the bread and butter for strong organizations.

“C” Player – Pretty simple: not an “A” or a “B”. Not capable of consistently delivering the quality of work and performance required to get the job done.

Most CEOs give their executives “A” ratings when they are more likely “B”s. And when subject to honest outside evaluation, many of their rated “B” players are actually “Cs”. But most CEOs will not face this reality.

A primary differentiating factor between exceptional CEOs and the rest of the CEO population is this ability to distinguish between “A”s, “B”s and “C”s and to take fast and consistent action in constantly improving the individual talent in the organization.

All leadership positions are not created equal...The CEO is almost always the most important member of the leadership team. Next in line is the executive who manages at the point of the company’s constraint to growth. As the organization grows and evolves the importance of various leadership positions will shift and change as well.

What if the CEO isn’t an “A” player? It does happen. And when it does the best course of action for this highly unusual and uniquely self-confident individual is to “kick himself upstairs” to a Chairman

role and find a more qualified CEO to lead and grow the company (a la Ben and Jerry’s, Home Depot, etc.). Barring that, there’s a pretty good chance that the “A”s will head for the exits, the “B”s will try desperately to look like “A”s and the “C”s will just keep on keepin’ on.

Team Talent: Make the whole better than the sum of the parts

In today’s networked business environment, team talent may be as important as individual talent in organizational success. Most of today’s business activity occurs in groups, and our research indicates a very broad disparity in team effectiveness. Our research indicates that, given the preference, a great team of average managers wins over an average team of high performing individuals. CEOs that have this team building/coaching skill have an enormous advantage over their CEO peers.

The best guide we’ve seen on this subject is “The Five Dysfunctions of a Team” by Patrick Lencioni. It does an excellent job of allowing the CEO to hold up a mirror and evaluate their ability to build and lead teams.

External Talent: Buy the best when you shouldn’t build it

The third talent type is external talent, which is any key outsourced activity. Cisco has famously bought much of their product development (through acquisitions) and out sources nearly all of their manufacturing.

A CEO has two opportunities here. First, look at your key existing outsourced/supplier relationships and subject them to the same A-B-C rating as your individual talent; especially if they are a critical component to your customer offering. Second, see if a new

source of external talent allows you to develop a breakthrough officering.

CEO Priority #3: Build superior processes in four critical areas

All businesses are 80% alike. They design/create an offering for a customer, they sell (for new and existing customers), they deliver a product/service, and they have overhead functions that support the three core functions. Surprisingly, many CEOs are too busy doing these things (such as trying to make their next sale) instead of evaluating and improving these critical functions.

Product Creation – Create a product/service that doesn't require a salesperson!

Do you think you have a sales problem? It may be that your product or service offering isn't compelling enough.

Your Product Creation goal is to create your own "BlackBerry" or "Ipod". These products are so compelling and useful to their target audience that they sell themselves.

Clayton Christensen brilliantly writes in "The Innovator's Solution" that your customer hires your product to do a job. The mistake CEOs make is to focus more on their product and less on the "job" the product is hired to do. The payoff of a finely targeted and well-crafted product (or service) comes from a much higher sales close rate.

Tivo is an example of taking a job (watching TV) and completely altering the experience. Tivo started with the job and worked backwards from the experience. The solution is so

compelling that seeing it in action is usually enough to make the sale.

A business service example is Transcentive, which has historically produced software for companies to manage their stock option plans. After years of selling software (they are the market share leader in their industry), they took a closer look at their customer's "job" of managing stock options plans and realized that many customers, when given a choice, would prefer not to perform the "managing the stock option job" at all. So Transcentive now does it for them. The product has become a service and the result is more revenue and profit and service revenue that renews each year.

One of your primary duties as CEO is to understand how Product Creation impacts your business destiny and bring the best ideas and resources to making your offering as "Tivo like" as possible.

Customer Creation/Growth – Build a predictable revenue pipeline

All CEOs understand that generating new revenue is a critical part of their job. But the best CEOs look at this differently. Instead of looking at new sales as a series of independent events, they create a sustainable process for acquiring and growing customers. Some of these are quite innovative.

Consider OrangeGlo International, the maker of OxiClean, Orange Glo and Kaboom. When the company was started the founders themselves sold these products primarily at craft shows. Dramatic, live demonstrations would sell the products as fast as demonstrators could collect the money. Had the company continued to rely on craft shows and live demonstrations alone it would have stayed a very small business. Then came the Home Shopping Network test. The essence of the product demonstration was extended to a much

broader audience and sales soared. A much larger group of new users began to extol the virtues of these powerful products and OrangeGlo was able to tap into the power of viral marketing selling cleaning products carried by a little company from Bentonville, Arkansas. OrangeGlo sales are currently in excess of \$300 million annually.

Production/Service – Create delighted customers at high margin

Since the ultimate goal of process excellence is delighting customers several CEOs have used an innovative, straightforward approach for finding out how they're doing from the, all-important, customers' perspective. Instead of complicated, generally arbitrary, numbers-based surveys (one person's "3" is another's "4") they periodically ask their customers if they are (1) Delighted (2) Satisfied (3) Not Satisfied. This makes the customer data much more real and forms the basis of a discussion to find out what would need to change for them to be delighted. This kind of dialogue almost always pays dividends for the relationship with that specific customer and usually provides insights and ideas that have broad impact with many customers.

Prioritizing the Priorities – "First things first"

Selecting the right business/profit model is the most important priority. Certainly, if the business/profit model is weak, but you've got a great leadership team, they may help you move on to a new and/or improved model. But that's risky and less than ideal.

And keep in mind; you can't separate any of these three priorities. To be an extraordinary CEO you can't be awesome

at two and mediocre at the other. These priorities are inextricably linked. For example, how can you even select and retain the right leadership team if you aren't clear about and working with a strong business/profit model. The same is true for critical processes.

Taking an objective look at each of the three priorities on a regular basis is critical. You wouldn't judge your current health by looking at your blood pressure, weight and cholesterol from when you were in high school. The same is true of your organization. Periodically taking a step back from your organization and giving it a good, thorough "organizational check-up" is critical if you're going to catch little problems before they become life threatening.

Becoming a high-performance CEO

CEOs are generally pretty persuasive people. They can talk themselves and others into just about anything. Sometimes they can even persuade themselves that they can do things that others think are impossible. That they frequently accomplish the "impossible" tasks is one of the things that great CEOs do best. But when it comes to dealing with the business/profit model, the leadership team and critical processes you'll be far better off if there's no perfume covering up the smell of what might just be a pig (with all due respect to the other white meat).

Achieving Dramatic Performance Improvement

In the course of our research and ongoing work we've seen CEOs with modest performance achieve dramatic improvement. How did they do it?

1. **Awareness and acknowledgement** of the power of the three priorities to transform business performance.
2. **Spending time differently** – consciously dedicating more time to the priorities and actively off-loading work on other issues.
3. **Working to improve knowledge and performance** related to the three priorities.

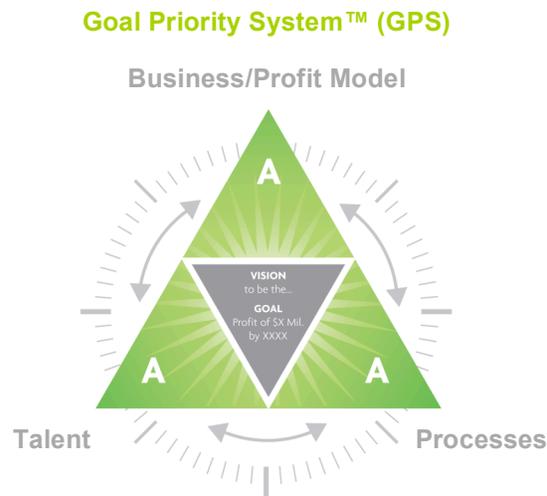
How much time are you wasting? One CEO started with a weekly assessment of how much time was spent in the top three priorities. The results were discouraging at first. The percentages were 5–10% for the first month (out of a 60 hour week). But after that, the percentages gradually climbed to nearly 50%. As a result, profits increased by a factor of five within 18 months. An employee asked the CEO about his change in style. The answer was enlightening…”I’ve finally figured out what a CEO does…and more importantly…what I shouldn’t do”.

A total commitment by the CEO to focus and develop skill on the three priorities will improve performance. And there’s another benefit that high performance CEOs shouldn’t really keep to themselves. Talk to any of the CEOs who focus on these three priorities and they’ll admit something interesting: They have more time – for themselves, for their families and for their other interests… But who needs more time?!

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How does it work?

The priorities can be visually represented with the GPS Triangle



The Triangle identifies the sequence of CEO priorities that, when applied correctly, create a robust, growing company. CEOs that use the Triangle to determine their priorities invariably build a stronger business engine and accomplish more in less time than their peers.

The steps in using the GPS Triangle are...

1. Use the Triangle to analyze where you are and where you could go.
2. Create a goal map that clarifies how to get from here to there
3. Focus your time and life energy on the “focus 3”
4. Apply “matrix solutions” to shorten implementation time and increase the probability of success