



The CEO Challenge for September 2009

Are You a “Best of the Worst” Company?

Lately I've been talking with a lot of CEOs about a concept I call “Best of the Worst” (BOTW). The term is harsh, but many executives quickly realize that yes, their organizations have a lot in common with BOTW companies like, say, GM.

In boom times, BOTW companies are enormously confident in and proud of their performance. They're meeting Wall Street's projections and their internal short-term metrics. They think they're invaluable to their customers and are immune to the whims of the market. In other words, they think they're doing everything right.

But then the environment changes. The market sours, the economy tanks, new competitors show up, legislation kicks in, or some other external variable shifts. Sales and profits plummet.

What do BOTW companies do? They blame these uncontrollable external variables for their woes. Then they just try to survive until the boom times return.

Yes, external variables like today's economy create challenging environments. Yet those variables also put Best of the Worst companies on display, because those companies only do well when the external environment is strong. They aren't really market leaders; they're just fulfilling accelerating demand. Right business, right time. But when that huge demand takes a nosedive, they point fingers because they don't recognize this painful truth:

THEIR PROBLEM IS INTERNAL.

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In this month's CEO Challenge, I'll explain some the characteristics of BOTW companies, then provide an action plan for addressing one of the major issues – internal versus external focus.

“BEST OF THE WORST” CHARACTERISTICS

Whether you're a Fortune 100 company or a startup, regardless of your industry, you may have a lot in common with GM, Nortel, Sun Microsystems, AIG, Kmart, and other BOTW companies. Here are a few of the characteristics those organizations share:

1. Their top priority is short-term financial performance.
2. Their metrics are all internal rather than external.
3. They're reactive versus proactive.
4. They don't understand, value, and/or focus effort on customer needs.
5. They don't constantly evaluate their competition or their customers.
6. They can't clearly articulate a value proposition that the market cares about or understands.
7. They can't quickly adjust to changes in the external environment.
8. They can't articulate a clear, long-term strategy to dominate specific niches and markets.
9. They create a sense of urgency about all the wrong things.
10. Teams are aggressively competing for budget, resources and rewards.
11. They're constantly patting themselves on the back.

Let's look more closely at some of these clues.

THE BLINDING LOOK IN THE MIRROR

Why do so many companies blithely ignore changes in the marketplace – shifting consumer demand, new competitors, impending legislation? It's because they're so focused on short-term financial performance that they don't notice or don't care. They just want to make the boss and Wall Street happy this quarter. After all, BOTW companies fire people who don't hit this quarter's numbers and throw huge amounts of money at people who do.

BOTW companies are overconfident because they only look at what's going on inside their four walls. Their metrics are all internal – things like revenue and net income – rather than external, dynamic measures like market share and customer accolades. They're hitting their internal growth targets, but they don't realize that they're growing more slowly than everyone else, losing

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ground when they think they're gaining. In the meantime, the landscape is changing and they won't know it until it's too late.

It takes guts to constantly look outside your business and your industry. GM ignored Consumer Reports lambasting their products. Their attitude: "We're making money. We don't have to listen." Ross Perot laid out their problem 25 years ago, but instead of focusing on external variables like customer needs, growing market share, or paying attention to their competitors, they just turned to Europe and Asia to fuel their growth.

Examples of internal versus external focus

Internal focus (BOTW)	External focus (BOTB)
<ul style="list-style-type: none">• Revenue, margins, net income, shareholder returns• Short-term performance• Closing any kind of deal• Patting selves on back• Fire drills• Internal silos• No knowledge of competition• Staff rewards & punishment	<ul style="list-style-type: none">• Market share• Growth versus industry• Customer satisfaction• Industry thought leadership• Long-term strategy• Creating real customer value• Constantly challenging the status quo• Consistently monitoring a broad range of competitors

By focusing internally and reactively rather than externally and proactively, BOTW companies have no solid foundation from which to manage. As a result, they end up creating a sense of urgency around things that don't really matter – things that are usually internally focused and almost always short-term. They try to optimize for the moment without taking any time to look at what the long-term focus is or should be.

As for metrics, well, internal metrics are straightforward and easy. External metrics are hard and ego-bruising. BOTW companies just don't think much about external metrics, competition, or improving the status quo. They're smiling into the mirror, so they don't see subtle shifts in the marketplace until it's too late. If they had consistently evaluated themselves against their competitors and really cared about customers, they would have had a chance to see the changes taking place. Instead, they discover that they can't reorganize quickly enough, they don't have the expertise, they don't have the product lines, they don't have the capital or loyal partnerships.

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THE SOLUTION: LOOK OUTSIDE!

This action plan will help you shift your company's focus from internal operations to the external marketplace. In future posts, I'll offer solutions for other BOTW problems.

Action Plan

1. Bring in new outside advisors – people from outside your company and your industry.

Entrenched insiders often can't tell when they're sitting in boiling water, but outside advisors can. Find them and use them! Ask them hard questions about your business. Ask them to challenge all of your assumptions. Be ready to really hear what they say, and then take action on their recommendations.

2. Spend a lot of time with current customers.

BOTW companies are overconfident in their solutions. In fact, they're so in love with their own products and services that they make little effort to understand anything beyond the superficial.

If you want to be BOTB (Best of the Best), you need to deeply understand who your customers are and why they buy from you – trust me. Yet the reality can be very far from your perception. In boom times, a customer's motivation to buy from you will be completely different than in leaner times. If you don't recognize those motivations, you won't be able to capture their business.

3. Talk to people who you think should absolutely be buying from you but aren't.

It always shocks me when a CEO says that the company doesn't actively reach out to highly targeted prospects that have chosen a competitor. Those people and companies can be a goldmine. Ask "why aren't you doing business with us?" and be prepared to listen, accept, and act on their responses.

4. Set external metrics and hold your team accountable.

Start setting external metrics and make them just as important as the internal ones. Those metrics should include goals for niche domination, market share growth (your rate should equal or exceed market growth), revenue growth with target clients, external industry thought leadership, published external research, news coverage, web traffic comparisons, and other ways that your customers and market will validate that you're as good as you think you are.

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If your company is privately-held or external data is sparse, don't be afraid to create estimates based on your team's experience and some well-documented assumptions. Seek out colleagues and advisors to validate your models. Yes, it will be hard to evaluate your growth versus that of your competitors and the market, and that's why it's even more important that you start somewhere. Ignoring the external won't make it go away.

5. Develop a meaningful value proposition for a clearly defined market.

Start by looking deeply at your current and prospective customer needs, then take an equally intense look at your competition and where your market is heading over the next 3-5 years. What's your long term-strategy? BOTW companies don't really have one. They're just thinking about the next quarter, and so they typically have a weak or incomprehensible value proposition.

BOTB companies have clear value propositions that resonate with highly targeted buyers. They don't try to go after enormous markets that they can't possibly penetrate. Instead, they figure out exactly which customer niches they can dominate, and they create products and services that win market share and legitimate industry and customer acclaim.

By creating a meaningful value proposition for a carefully targeted market, your company will take an important first step in shifting focus from short-term internal results to long-term customer value.

6. Clean house of bad assumptions and the wrong people.

As Jim Collins discusses in "Good to Great," the enemy of great is good. People who are good don't see a need to be great. And those people work for BOTW companies. BOTB companies are filled only with people who want to be great. They welcome metrics instead of shun them; they care about long-term value rather than short-term wins. Those are the people you need.

CONCLUSION

I don't want to belittle the fact that today's economy is difficult. It is. But we've experienced it before and we'll experience it again. If our businesses are so completely dependent on external factors, how can we continue to drive profitable growth without major upheaval once or twice a decade?

One of the best ways to weather the storm – and elevate your organization from the BOTW category – is to shift your attention from the inside to the outside of your building. Know what

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your customers really think of you. Measure how well you're growing relative to your industry. Hire fresh thinkers and get advisors who will tell you the cold, hard truth and make you a better company as a result.

You're driving the bus. Don't let a storm send you off a cliff.

What do you think?

Please share your thoughts and experiences with us at the URL below!

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