DavidsGuides.com - Book Summary

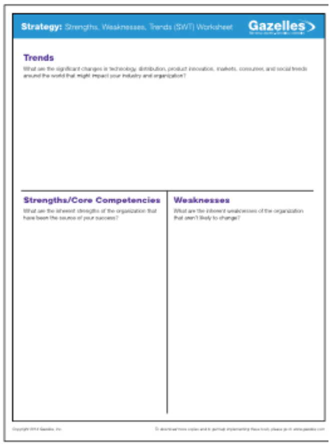
Book Author: Verne Harnish
Book Title: Scaling Up - How a Few Companies Make It...and Why the Rest Don't
[**Amazon Link**]

Please add the chapter names

Summary:

Chapter 1 - The Overview

- Because of the sheer number of start-ups and small businesses, there is a huge market for the myriad number of books supporting these entrepreneurs — the two best being Michael E. Gerber's *The E-Myth Revisited* and Eric Ries' *The Lean Startup*. The large number of entrepreneurs also forms a significant enough voting bloc to garner attention from politicians.
- Every business is more valuable to the degree that it does not depend on its top leader. For more on these topics, read Margaret Heffernan's book *Willful Blindness: Why We Ignore the Obvious at Our Peril* and Liz Wiseman's *Multipliers: How the Best Leaders Make Everyone Smarter.*
- Therefore, your team must use our tools to master **four fundamentals**:
    - **InleadingPeople**,takeapagefromparenting:Establishahandfulofrules,repeat yourself a lot, and act consistently with those rules. This is the role and power of Core Values. If discovered and used effectively, these values guide all the relationship decisions and systems in the company.
    - **InsettingStrategy**,followthedefinitionfromthegreatbusinessstrategistGaryHamel. You don't have a real strategy if it doesn't pass two tests: First, what you're planning to do really matters to enough customers; and second, it differentiates you from your competition.
    - **In driving Execution**, implement three key habits: Set a handful of *Priorities* (the fewer the better); gather quantitative and qualitative *Data* daily and review weekly to guide decisions; and establish an effective daily, weekly, monthly, quarterly, and annual meeting *Rhythm* to keep everyone in the loop. Those who pulse faster, grow faster.
    - **In managing Cash**, don't run out of it! This means paying as much attention to how every decision affects cash flow as you would to revenue and profitability.
- Hire fewer people, but pay them more (frontline employees, not top leaders!)

- 

Strategy: Strengths, Weaknesses, Trends (SWT) Worksheet

Gazelles

Trends

What are the significant changes in technology, distribution, product innovation, markets, consumer, and social trends around the world that might impact your industry and organization?

Strengths/Core Competencies

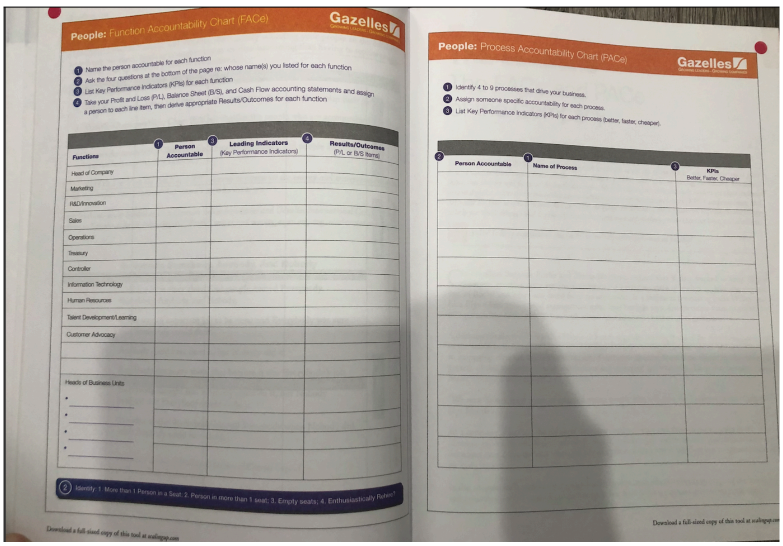
What are the inherent strengths of the organization that have been the source of your success?

Weaknesses

What are the inherent weaknesses of the organization that aren't likely to change?

- ***The executive team is healthy and aligned.*** Here we pull a page from Patrick M. Lencioni's *The Five Dysfunctions of a Team: A Leadership Fable*, a book we recommend that all leaders peruse (it's a quick read). In essence, your executive team needs to have a level of trust that permits true debate and constructive conflict to occur. What prevents this in large companies is politics; what blocks it in growth firms is friendship. Members of the team must embrace its diversity (the more the better) and be willing to challenge each other in making decisions and exposing the brutal facts.
- ***Communication rhythm is established and information moves through the organization accurately and quickly.*** The #1 challenge when two or more people are working together is communication (anyone married?). The key is an effective daily, weekly, monthly, quarterly, and annual Meeting Rhythm, which, when executed properly, actually saves everyone a tre- mendous amount of time. It's counterintuitive, we know. Specific agendas for each meeting will be detailed in the "Execution" section.
- ***Ongoing employee input is collected to identify obstacles and opportunities.A Key Component*** of the weekly qualitative data you need to guide the business must come from your employees, especially your sales channels and your frontline employees. They are closer to the action. We recommend that each senior leader formally talk to one employee each week and ask, "What should the company Start/Stop/Keep doing?" Pay particular atten- tion to the "stops." These are the roadblocks you need to eliminate from the company to keep people motivated.
- In fact, Jim Collins and Morten T. Hansen, in their best-selling book *Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All*, found that successful companies held three to 10 times more cash assets than average for their industries, and they did so from the time they started. (We highly recommend that you read this book, Collins' first that directly addresses growth firms.)
- It's also critical to know your Cash Conversion Cycle (CCC). It's a technical term for how long it takes, after you spend a dollar/euro/yen on rent, utilities, payroll, inventory, marketing, etc., for it to make its way through your business model and back into your pocket. So that you can see how to calculate this, we recommend that you read a classic *Harvard Business Review* article titled "How Fast Can Your Company Afford to Grow?" by Neil C. Churchill and John W. Mullins.

Chapter 2 - The Barriers

- To up your skills in this area we strongly recommend reading pricing guru Hermann Simon's book *Confessions of a Pricing Man: How Pricing Affects Everything.* His firm Simon-Kucher & Partners is the leading pricing consultancy in the world - you might consider engaging them.
- One of the largest ad agencies in the world, they have updated the 4Ps of marketing and have provided a complimentary online presentation and whitepaper on the 4Es - Experience, Exchange, Everyplace, and Evangelism. Spend time each week working on how to execute better the 4Es of the business.
- 

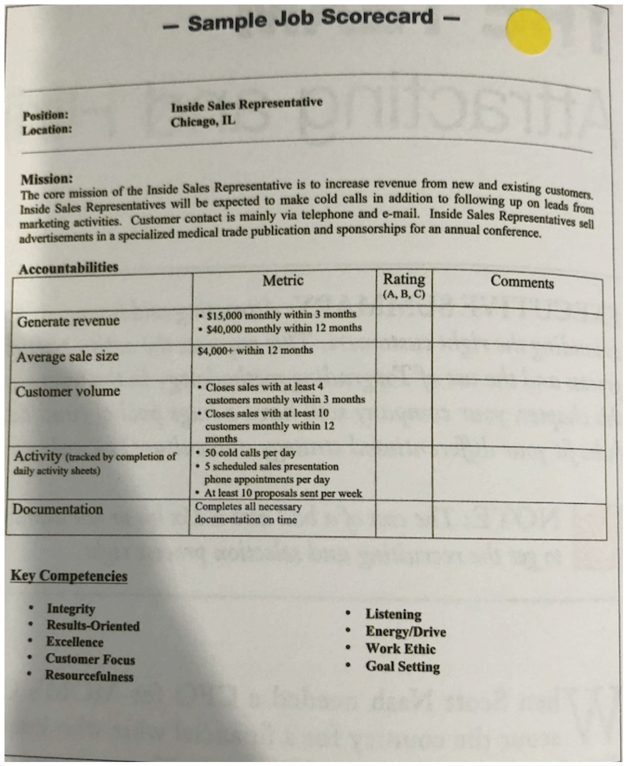
Chapter 3 - The Leaders

- Overall, focus on how your wealth will flow through you in the service of others, rather than hoarding it. This seems to attract more wealth - the natural law of reciprocity. Lynne Twist's insightful book titled *The Soul of Money: Transforming Your Relationship With Money and Life* expounds upon this idea.
- **WARNING:** *Whatever is the strength of a leader often becomes the weakness of the organization (e.g., if the founder is strong in marketing, the business may eventually find it's weak in this functional area). Why? Because leaders have a tendency to hold on too tight, strangling the efforts of those around them. Or the leaders figure they cna "watch over the details," bringing in someone too junior to oversee the function vs. bringing on the powerhouse they really need. Instead, leaders must make a counterintuitive decision and find people who exceed their own capabilities in their area of strength, to prevent the company from stalling.*
- *Do you have more than one person accountable for a function?* The founder might be sharing accountability for sales with another executive, or partners might all be listed next to "head of company." The rule is that only one person should be accountable; otherwise, there will be confusion. Having more than one name in a box is a red flag.

- *Does someone's name show up in more boxes than everyone else's?* We recognize that in growth companies, leaders may wear multiple hats, but if one executive's name shows up three or four times compared to everyone else's one or two, that leader is either going to die young (a little dramatic) or one of the functions he or she owns will not be supported sufficiently. This is another red flag.
- In the case of the head of the company, it's simply the ratio of all the other boxes on the FACe tool that are right (i.e., the main job of the head of the company is to make sure she has the right people doing the right things right). And when many founders/CEOs realize this, they often bring in someone else to head the company so they can focus on R&D or marketing or customer advocacy. That's why we emphasize separating titles from functions.
- To navigate this organizational transition, the functional heads, who have been used to driving the business, need to adapt. They need to become more like coaches/advisors to the business unit leaders, rather than acting as their "bosses." In turn, the heads of the business units need to lead as if they are individual CEOs. You don't want weak "yes-people" heading up your business units.

Chapter 4 - The Team

- An A Player, by the Smarts' definition, is someone in the top 10% of the available talent pool who is willing to accept your specific offer. Read that definition again. They are not implying that you have to pay beyond what your business model can sustain. They do mean that you need to attract the largest and most capable talent pool excited about the job and willing to accept your compensation package (e.g., McDonald's has the same chances of hiring A Players as Goldman Sachs), and have the tools to select the best people from this group of prospects.The Job Scorecard is the starting point.

- 

— Sample Job Scorecard —

Position: Inside Sales Representative
Location: Chicago, IL

Mission:
The core mission of the Inside Sales Representative is to increase revenue from new and existing customers. Inside Sales Representatives will be expected to make cold calls in addition to following up on leads from marketing activities. Customer contact is mainly via telephone and e-mail. Inside Sales Representatives sell advertisements in a specialized medical trade publication and sponsorships for an annual conference.

Accountabilities

	Metric	Rating (A, B, C)	Comments
Generate revenue	• $15,000 monthly within 3 months • $40,000 monthly within 12 months		
Average sale size	$4,000+ within 12 months		
Customer volume	• Closes sales with at least 4 customers monthly within 3 months • Closes sales with at least 10 customers monthly within 12 months		
Activity (tracked by completion of daily activity sheets)	• 50 cold calls per day • 5 scheduled sales presentation phone appointments per day • At least 10 proposals sent per week		
Documentation	Completes all necessary documentation on time		

Key Competencies

- **Integrity**
- **Results-Oriented**
- **Excellence**
- **Customer Focus**
- **Resourcefulness**
- **Listening**
- **Energy/Drive**
- **Work Ethic**
- **Goal Setting**

- At MOM's, the online job application asks questions such as "What companies do you admire?" to get a sense of a candidate's values. "That gets us to a place where we know what is important to them." says Nash. The company also asks why applicants are interested in MOM's, "Some people say they want to work for MOM's because we're in a booming industry. They want job security and some money. That's okay, but it has nothing to do with our values."
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