

# CEO <sup>20</sup> CEO

Assisting business leaders as they navigate critical passages

## Throwing Cash Away on Growth Initiatives

June, 2008



I've been reading a great book recommended to me that commented "**being cash flush makes CEOs stupid.**" And there is some truth in that. The book is The Six-Month Fix, by Gary Sutton. I'll admit that CEOs are optimistic, so when we have cash on hand, we really believe that we can create more value. All my clients are very bright (working with CEOs is fun for that reason among others) but I'm often in the role of gut-checking them -- providing a level-headed perspective on their latest exciting opportunity. So this issue of The Insomnia Factor lays out one of the ways I evaluate opportunities to scale up. And as always, I'm giving you a few examples of the work I've been doing.

### Psychology of a call

Ever hesitated before making a really tough phone call? Where a lot hangs in the balance? This New York

based CEO had to make about 80 of those calls, one after another. He and I talked our way through the approach, and discussed the psychology of the CEOs that would be on the other end of the call, then wrote out a screen play of sorts for the calls. He did superbly.

### A Private Top Gun

A former commanding officer of Top Gun (graduate level fighter pilot training school popularized by the movie) has launched a private version of Top Gun to act as a cost saving outsourcing option for our military. His team of top notch aviators and tactical aviation experts needed some business planning and guidance now that the bottom line really counts. We put together a set of one page business plans that I'll follow up on for a year or more.

### Shuttle diplomacy

Two financial services veterans are thinking about merging their businesses. But there were some critical but potentially delicate conversations that neither party was eager to dive into. They jointly hired me to be the go-between to broach the touchy subjects, giving each party time to absorb it before reacting.

### Exit coaching

A husband and wife got an unsolicited offer to buy their business and they

## The INSOMNIA Factor

What keeps CEOs **AWAKE AT NIGHT**  
—and what to do about it.

## Investing in Growth or Throwing Cash Away?

By Robert Sher

I can't remember getting a call from a CEO who had so much cash he could afford to waste it. More often, I have a client who is doing well and wants to parley the better than average cash flow into even more growth and profitability. What keeps us CEOs up at night is the worry that we're taking cash flow that could be our retirement fund (or debt repayment) and **wasting it on a growth initiative that will fail**. Then we'll enter our next down-cycle with less cash and a business that is already stagnant. And this worry is legitimate -- the landscape is littered with the carcasses of businesses that planned for growth, spent on plan, but didn't grow.

Having the cash to grow is usually the last prerequisite before implementation of the growth plan. But there are many other prerequisites that take longer than getting money. The one I'm going to focus on is having a proven, repeatable, scalable process that you've tested, that can produce predictable results.

[www.ceotoceo.biz](http://www.ceotoceo.biz)

21001 San Ramon Valley Blvd, Suite A4101, San Ramon, CA 94583 e:Robert@ceotoceo.biz Cell (best):925-788-1141 Office/Fax: 925-829-8190

## *The Insomnia Factor, continued*

I have a couple of clients that are amazing at this. Here is what they did: At the beginning, the founders usually closed all the sales. They developed a knack at it and had good results. In most cases, they then hired a few additional people like themselves who had some success at it too. But the perfect personality types that can master all the steps in the sales process can be hard to find and keep. So they broke the business development process down into steps, and hired a few people to do each phase and gave it a whirl.

They worked closely with those people and began to translate what the founder did into clear, actionable, measureable steps that an employee could follow. The process was adapted as needed since non-founders didn't have the position authority and had to sell in a different way. New ideas were tried, measured, and added in when it improved the odds of success.

After a while, the first group began to do the job well. Of course, they were trained by the founder, who quickly became too busy to train everyone. The next step was that another set of people were brought on and were trained by the first group and with the use of written procedures that had recently been developed. When the second group of hires started producing value on schedule, then that was the first time the process was proven to be repeatable. In most cases, it took six to nine months to get to this point.

Assuming all went well, this was the point where scalability was tested. The firms brought in three recruits at once, who got the training from their peers (or their manager), read the manual, and tried their hand at the job. If they come up to speed on plan, and all else is going well, this is the point where they started to believe that they could speed up the process and hire six or twelve at a time and successfully increase the rate of growth for the business. Typically, a year has passed since the process started.

Many, many CEOs are NOT this patient. They assume that because *they* could go out in the field and produce revenues right away that everyone can. They assume that because it worked once, it is ready to scale up. But it's not that easy. Most big crash and burns in growth mode happen because too many assumptions are made about the sales process. Finding an excellent, proven, repeatable process for growth is not easy, and most ideas about how to do that don't work as well as they were supposed to. It's just too complex a world to have a smart person figure it out and get it right without testing and time. If you try to scale prematurely, you're scaling up waste and confusion, and you'll blow a year doing it anyway.

This is true in many areas of business development. Paid on-line ad spend must start slowly and please monitor your cost of conversion for each campaign until you learn enough to scale up with predictable, profitable results. Mailing campaigns and advertising: same thing. Franchises have a tendency to do one or two company owned locations well then jump to franchising. That's a bad idea. A good franchisor will create their manual and launch a few remote stores with only the amount of support they plan to give franchisees. After they've done that a few times successfully, then, and only then, should they begin rolling out.

were referred to me. Was it real? How should they react?

### **Go-no go spreadsheet**

A high growth client had its smallest business unit under review. Debate raged about whether to kill it or invest in it. I was asked to get involved, and created a complex spreadsheet that modeled the cash flows under three different scenarios. Bye-bye business unit.

### **Code of conduct & values**

Young, energetic, hard driving companies often have issues created by some people mistreating others. This CEO decided it was time to draw the line, so I guided the team in developing a written code of conduct. Next stop will be a values exercise.

### **Salability assessment**

When you're tired or times are tough, selling you business for big bucks sounds appealing. But will it fetch the big bucks? I did a rough assessment of this business, and talked about how to pursue the right kind of buyer as well as improving the business's performance.

### **Keynote Speech**

Last month I spoke at commencement for graduate business at St. Mary's College. The transcript is on line, as is a recording and pictures. My theme: Living Life at Full Throttle. You'll also now find on my website over 100 of my CEO case studies and articles.

### **Please keep in touch**

I would love to hear from you and find out what you're up to.

*Please call, e-mail or let's get together.*

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21001 San Ramon Valley Blvd, Suite A4101, San Ramon, CA 94583 e:Robert@ceotoceo.biz Cell (best):925-788-1141 Office/Fax: 925-829-8190