

# CEO TO CEO

Assisting business leaders as they navigate critical passages

October 21, 2009



I'm working with a client right now that is totally reviewing their overall strategy. What a refreshing exercise to set aside all the beliefs and notions that we all build up over time, and go on a quest for facts and realities. What is the competition up to that we can observe? We ask open questions to customers and non-customer and record what they say, even if we don't like it. We do the homework to be able to lay out what *is*, so we can decide what *should be*. It's an incredibly important exercise as we think about putting some distance — a gap — between us and our competition. My column this month dives into just that topic. Enjoy, and may the gap be with you. —Rob

## The INSOMNIA Factor

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

### Mind the Gap Keeping your Leading Edge

By Robert Sher

In London the "gap" on the Underground is dangerous. But for the gap I'm thinking about, bigger is better. Order me up a moat, or a chasm, please. I'm talking about the performance gap between your company's *superior* product or service and your competitors'.

This month, I've seen no less than seven leaders (six CEOs and one CFO) where the size of their gap was at the heart of their insomnia. For one company, the gap is so wonderfully huge that he's staying awake at night figuring out how to keep up, and is presently holding back new customers from signing on until he's ready. For now, his would-be customers are not going anywhere because they don't have any good alternatives.

For two of the seven companies, they've created brand new, innovative offerings (one is a product, and one's a service), they are just in the process of telling the world. The customers should come running any time now. Not that these CEOs are on pins and needles or anything....

(Continued on page 2)

### Some Current Projects

**VCs and Board Meetings.** A client just received 4 million in venture money and it's time to take the board preparation and presentations to the next level. Boards like to feel the confident, steady and sure hand of the CEO, and we'll give them what they want.

**Outgrew the Structure.** This client grew too much — about 80% in one year, and has out-grown its management structure. Some of that great profitability will have to be redirected into human infrastructure to build toward an exit before the threat of bigger competitors and converging technologies affects value.

**Critical Project Facilitation.** This firm is shifting gears toward a new business unit and the various departments needed to coordinate very closely to deliver on the promises being made. I was asked to facilitate the formation and early meetings of the management team charged with this mission critical project.

**Late Night Forecasting.** My client had a set of forecasts headed toward a VC on a midnight deadline that weren't what they needed to be. His team was unreachable, so he called me. I dusted off my Excel skills and we built what we needed in under four hours. He got the terms sheet two days later.

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The other four companies have been minding their business, but they see their gap—their lead—is closing between what they offer and their competitors offer. One said, “We’ve had a huge lead for eight years now, but this year, a team of three unemployed engineers in Los Angeles have built a new system that does pretty much what ours does. It has been pointed out to us by several prospects”. Another, whose business has been growing steadily (even in 2009) said, “We solved a key problem 15 years ago that was a big leap forward. We’re protecting our patents aggressively, but advances in related technologies are allowing our competitors to solve that same problem in new ways. We’re fine for the next few years, but I’m worried about 2013 and beyond.”

Every chief executive I know is keenly aware that the gap between them and their competition is closing all the time. Key differentiators are almost never permanent, so even you’re the “lucky” chief executive I mentioned at the start of this article, you know it won’t last forever. Minding and expanding the gap is an ongoing duty.

#### Gap-Minding Best Practices

Spend money and time on minding the gap, and project manage that effort. This means a team (including the chief executive) will meet regularly, have written tasks and be held accountable for them. This will result in a steady stream of failures and successes over time. [Read a CEO case study on someone who did this well.](#) Just thinking about the gap while on planes and stuck in traffic won’t cut it.

Know that a lot of money and time will be wasted in this process. Innovating and developing new services/products is not like running a production line. No exact bottom line can be calculated from the start. This also means that you should not bet the farm on any one idea or initiative. Some of the free cash flow from operations should be allocated to this effort each month. [Read this related article.](#)

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Get out of your office. Talk to people. These innovations have to solve other people’s problems. Too many of us get isolated inside our own compa-

*(Continued on page 3)*

#### **Referral Hall of Fame**

Thank you to those that have referred me to a chief executive or a speaking opportunity! *Referrals are how I grow my practice.*

- ◆ **Ken Anderson**, with [MMW International](#) referred me to a CEO.
- ◆ **Ron Storn**, CEO, [Targus](#), referred me to a CEO.
- ◆ **Christina Bui**, Asst Managing Director, [Tatum LLC](#), referred me to two CEOs.
- ◆ **Ken Niewald**, Partner, [Tatum LLC](#), referred me to a CEO.
- ◆ **Rod Hoagland**, Partner, [Tatum LLC](#), referred me to a CEO.
- ◆ **James Hickey**, Managing Director, [Tatum LLC](#), referred me to a CEO.

#### **Presentations**

*(I’m always interested in speaking opportunities)*

- ◆ **October 21 Noon** at Alamo Rotary. Talk will be “Delivering Help in your Circle: Strategic Networking for Business Development”.
- ◆ **October 21 5:30 pm** in Cupertino. Speech about Buying and Selling Businesses (related to my book, the Feel of the Deal) at Silicon Valley Business Meetup. Open to all.
- ◆ **November 5th, 7:30 am** Sacramento CEO Round Table event. I’ll be leading off the discussions with a talk on M&A at this River City Bank & Alliance event. For chief executives only. E-mail me if you’re interested in being invited.
- ◆ **Webinar, November 20th, 11 am.** “Delivering Help in your Circle: Strategic Networking for Business Development”. Attend while at your desk. [Sign up here.](#) Hosted by the B2B Power Exchange. No cost. Open to all.

nies, or inside our own heads. [Click here to read my article on just this point.](#)

Test early, and test quickly. In the product world it's called fast prototyping. With new ideas, get them out of the "lab" quickly, and let customers try them on, see if they'll buy. Spend as little as you can to get this early read on customers. Much of the time, the "great" idea will fail, and you'll save a bunch of development money and time. On those occasions when it succeeds, you'll have to do some re-work on your prototype, but that's much cheaper than building your failures perfectly. [Read this case study on my client, who does this really well.](#)

### **Wrestling with a Rat!**

This is a sneak preview of the case study that will appear in the Winter 2010 issue of the Alliance of Chief Executives newsletter. When I first heard this story, I just HAD to write about it. A COO is promoted to CEO just as the company goes public, with a board that has misplaced trust in an investment banking advisor that proceeds to manipulate the stock and hold the company hostage for four years. The CEO and her team fight back and keep the life-saving work of the company alive and moving forward until the Department of Justice takes the bad actor off-line. Five key take-aways are at the conclusion of the saga. [Read it here.](#) To browse the Alliance Newsletters, [click here.](#)

Work on incremental moves, where you'll widen the gap a little, as well as big, bold moves that will create a new chasm. The small moves will help keep you ahead just enough to give you more time to figure out how to leap forward.

Remind your teams that I'm not talking about a technological gap, or an intellectual gap. I'm talking about your company's ability to solve your customer's worst headache, versus your competitor's ability to do so. Don't build great things that have no use.

Vision and passion are great, but hallucinations are not. Yet vision and hallucination are

close kin. Don't believe your own BS. Your customers either love what you've developed/delivered and pay you nicely for it, or they don't. They are your judge. They are not wrong. I'll admit that sometimes it takes a few tries, and that the marketing and sales effort must be on target. But too many companies limp along, getting into debt with products or services that just don't cut it. What a waste. When you have a big competitive advantage, you'll know it. Your numbers will show it. You'll be scrambling to keep up with the sales.

When your gap is large, charge enough and earn enough profit to build a war-chest for minding the gap in the future. This is innovation fund, or an acquisition fund, or a new ventures fund. Call it what you want. But if you distribute too much of the spoils when the going is good, you are impairing your ability to maintain your competitive advantage.

But it is also true that some companies are *one-trick* ponies. The likelihood of another big innovation is low. Maybe it's because of a consolidating industry, or because ownership isn't willing to take any risk. Acknowledging that the company won't have a big new innovation will mean they can avoid wasting cash and profits on an effort that is likely to fail. Instead, either fatten up the profits and sell it while the future still appears bright, or run the business lean and profitable, churning out free cash flow, even as it shrinks. Sell your business, or ride it down profitably.

The "Mind the Gap" warning isn't just for Brits riding the underground. It's for every chief executive too. Keep an eye on the competition as they gain ground, and continually look for and test ways to maintain or widen the gap. That'll keep the profits and growth coming – for your company.

### **Calling all Manufacturers!**

[The Alliance of Chief Executives](#) and I are putting together a private group of manufacturing company chief executives who will meet quarterly to gain fresh strategic insights and ideas by engaging in confidential strategic discussions. The group will be directed by [me](#). The first meeting has been set for November 12, 2009 with ten attendees to date, but we have room for a few more. All industries are included, provided that they manufacture physical goods. An example of one of our members that will be in this new group is [Applied Aerospace Structures Corp.](#)