

It's all about fundamentals

Businesses need to get back to basic principles to survive.

By Dean Poeth

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I first learned about Vince Lombardi from my high school varsity football coach. It was during a particularly bad pre-season practice, with numerous dropped passes and missed blocking assignments, that he told us a story about the legendary coach of the Green Bay Packers.

The Packers had just lost a game they should have won. In the locker-room after the game Lombardi told the players, "Do you know why you lost that game? You've forgotten the fundamentals. Starting right now this team is going to focus on the fundamentals." And then, holding up a football, he said to his players, "Gentlemen, this is a football!"

Perhaps the same could be said to many in business today. With New York businesses hemorrhaging jobs by the thousands, now more than ever, a mastery of the fundamentals is a necessary ingredient for survival. These principles lay the rock-solid foundation on which a business can weather this economic storm.

So what are the fundamentals? Now more than ever a company must produce a product or service that meets a need and can be sold at a competitive price. Expensive products that no one needs will fail like an Edsel, reducing a company's survivability in the global marketplace.

Speed is a fundamental that provides a significant competitive advantage. Ball Metal Container Corp. of Saratoga Springs is an example of a company that has mastered speed. This factory makes 12-ounce beverage cans 24 hours a day, seven days a week at the amazing rate of 6,600 cans per minute (9.5 million per day).

Machine changeovers are performed with lightning speed, resembling a NASCAR pit crew replacing the tires on a race car. These quick changeovers allow Ball to rapidly respond to changing customer needs. Ball's mastery of speed and its flexibility have allowed the company to thrive in a highly competitive market.

The fact is, when everything else is equal (and sometimes when it is not), the fastest company often wins.

COUNT THE COSTS

Another business fundamental is understanding the true impact of labor costs on operations. This is best illustrated with an example.

Suppose two companies make the same product. The first pays labor minimum wage (\$7.15 per hour) and the second pays \$17.15 per hour. Workers at the first factory, using outdated machinery and obsolete methods, can produce only 10 products per hour. At the second, using modern equipment and modern methods, the workers produce 35 products per hour. Simple arithmetic will show that products manufactured at the second company will have a lower per-unit-cost, even though workers are paid a significantly higher salary.

Contrary to widespread opinion, it is the cost per product that is of primary importance, not the cost of labor per hour. The first is a consequence of productivity; the second is a metric of salaries. Wages are a contributor to unit cost of course, but as this simplified example shows, an excessive focus on wages is myopic.

This isn't new. Henry Ford (the founder of the Ford Motor Co.) understood and applied this principle nearly 100 years ago. Ford paid his workers more than double the prevailing wage, yet was able to sell automobiles for a far lower price than his competitors.

Productivity and low costs are cause and effect. Improvements in productivity only result from heartfelt cooperation from the worker. You can't boss that into a person; it must come from within. Workers with such a desire can save the company more money in a month than a team of outside consultants can in a year.

The fact is that many workers know how to improve productivity far better than even the boss. After all, the workers are the experts — they interact with the product all day every day. I have also found that many are imaginative, inventive, and creative. But there is a problem.

Some businesses unintentionally create a culture that acts as a disincentive to improved productivity. For example, if the workers improve productivity while orders stay the same, they could lose their jobs. Just like everyone else, the worker has a family to support and a mortgage, so they naturally resist any such attempt. Why should they take that risk in this economy? Would you?

To successfully drive down costs, the manager must create a secure environment so the workers can improve productivity without fear of losing their job. That sounds easy; it isn't. It requires a culture of trust, and trust is never a gift, it must be earned. Building trust requires leadership and it takes time, so this can be a challenging and slow process.

ATTENTION TO INTEGRITY

Another fundamental is simply hiring people of integrity, although that may sound somewhat behind the times in this day of New York investment banking scandals.

Old-fashioned or not, paying attention to integrity during the hiring process has its benefits. These are the kinds of people who, if they found a \$20 bill on the ground, would make a reasonable effort to find its owner instead of just stuffing it in their pocket. People who are cordial and exert a positive influence on those around them. People you can trust not to break the rules or the law in the name of expediency. Employees like this don't post embarrassing videos of your business on Youtube, file false workers' compensation claims, or steal from the till.

Success in business, like football, requires a mastery of the fundamentals. There are no shortcuts because success is always hard. Vince Lombardi once said, "This is not easy, this effort, day after day, week after week, to keep them up, but it is essential."

He was right.

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