

The Personal MBA is an introductory business primer. Its purpose is to give you a clear, comprehensive overview of the most important business concepts in as little time as possible. The vast majority of modern business practice requires little more than common sense, simple arithmetic, and knowledge of a few very important ideas and principles.

Chapter 1: Value-Creation

“Make something people want... There’s nothing more valuable than an unmet need that is just becoming fixable. If you find something broken that you can fix for a lot of people, you’ve found a gold mine.” — **Paul Graham**, founder of Y Combinator, venture capitalist and essayist at paulgraham.com

The Five Parts of Every Business

“A business is a repeatable process that makes money. Everything else is a hobby.” — **Paul Freet**, serial entrepreneur and commercialization expert

Key Ideas:

- Roughly defined, a business is a repeatable process that:
 - 1. Creates and delivers something of value...
 - 2. That other people want or need...
 - 3. At a price they're willing to pay...
 - 4. In a way that satisfies the customer's needs and expectations...
 - 5. So that the business brings in enough profit to make it worthwhile for the owners to continue operation.
- At the core, every business is fundamentally a collection of five interdependent processes, each of which flows into the next:
 - 1. **Value Creation** – Discovering what people need or want, then creating it.
 - 2. **Marketing** – Attracting attention and building demand for what you've created.
 - 3. **Sales** – Turning prospective customers into paying customers.
 - 4. **Value Delivery** – Giving your customers what you've promised and ensuring that they're satisfied.
 - 5. **Finance** – Bringing in enough money to keep going and make your effort worthwhile.
- Take away any one of these five parts, and it's not a business.
- When planning a new business or analyzing an existing venture, always begin with the five parts – they will help you discover any major issues or gaps quickly.

Questions for Consideration:

- Think of the business you're working on: what are the five core processes?
- Can you describe or diagram them in detail?
- How do they fit together?

Economically Valuable Skills

“Don’t go around saying the world owes you a living. The world owes you nothing—it was here first.” — **Mark Twain**, great American novelist

Key Ideas:

- Economically Valuable Skills are directly related to the Five Parts of Every Business.
- Not every skill or area or knowledge is economically valuable.
- To increase your value, focus on improving skills that are economically valuable.

Questions for Consideration:

- What skills, talents, or knowledge do you possess that are related to the five core business processes? How are you using them now?
- How can you use your skills to benefit others?
- What skills could you develop to make yourself more valuable as a business professional?

The Iron Law of the Market

“Market matters most; neither a stellar team nor fantastic product will redeem a bad market. Markets that don’t exist don’t care how smart you are.” — Marc Andreessen, venture capitalist and founder of Netscape and Ning.com

Key Ideas:

- Even the most ingenious idea will fail if no one wants it – creating something no one wants is a waste.
- Find ways to serve existing markets vs. building something, then finding a market to sell it to.
- This “iron law” is cold, hard, and unforgiving – ignore it, and you *will* fail.

Questions for Consideration:

- Are you sure people actually want what you’re creating?
- How can you find out before committing valuable time, energy, and resources to the venture?

Core Human Drives

“Understanding human needs is half the job of meeting them.”— Adlai Stevenson, politician and former governor of Illinois

Key Ideas:

- All humans have five core drives that influence their decisions:
 - Drive to Acquire: It's the desire to collect material and immaterial things, like a car, or influence.
 - Drive to Bond: Desire to be loved and feel valued in our relationships with others.
 - Drive to Learn: Desire to satisfy our curiosity.
 - Drive to Defend: Desire to protect ourselves, our loved ones and our property.
 - Drive to Feel: Desire for many emotional experiences, such as pleasure or excitement.
- Whenever a group of people have an unmet drive, a market will form to satisfy it.
- The more drivers your offer connects with, and the better you communicate those connections, the more attractive your offer will become.

Questions for Consideration:

- What core human drives does your offer connect with?
- How can you potentially connect it with other drives?

Status Seeking

“The society which scorns excellence in plumbing as a humble activity and tolerates shoddiness in philosophy because it is an exalted activity will have neither good plumbing nor good philosophy: neither its pipes nor its theories will hold water.” —**John W. Gardner**, former president of the Carnegie Corporation

Key Ideas:

- Humans are social creatures, and we care intensely about our relative status.
- Status Seeking is a universal phenomenon.
- In general, we like to be associated with people and organizations that we think are powerful, important, exclusive, or exhibit other high-status qualities or behaviors.
- When opportunities to increase social appear, most people will seize them.
- Status considerations influence the vast majority of decisions and actions.

Questions for Consideration:

- Can you think of situations in your life in which you acted to gain social status?
- Does your offer increase or decrease your prospect's relative status?

Ten Ways to Evaluate a Market

“So often people are working hard at the wrong thing. Working on the right thing is probably more important than working hard.” — Caterina Fake, founder of Flickr.com and Hunch.com

Key Ideas:

- These ten points help identify the attractiveness of a market:
 - Urgency: How badly do people need this right now?
 - Market size: How many people would purchase this?
 - Pricing Potential: What’s the highest price people would be willing to pay?
 - Cost of Customer Acquisition: How easy is it to acquire a new customer?
 - Cost of Value Delivery: How much does it cost to create and deliver the offer?
 - Uniqueness of Offer: How unique is your offer versus the competition’s? How easy is it to be copied?
 - Speed to Market: How quickly can you create and sell?
 - Up-Front Investment: How much do you have to invest before having an offer ready?
 - Up-Sell Potential: What related offers could you present to purchasing customers?
 - Evergreen Potential: Once the offer is created, how much work do you have to put into it to continue selling?
- You should rate them from 0 to 10, with 0 being extremely unattractive, and 10 being extremely attractive.
- When you’re done with the rating you should add it up, and depending on the score, you’ll have an idea of how promising your idea is.

Questions for Consideration:

- How attractive is the market for your idea?
- Are there other markets that may be more promising?
- Can you alter the idea to appeal to a more attractive market?

The Hidden Benefit of Competition

“The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time.” — **Henry Ford**, founder of the Ford Motor Company and assembly line pioneer

Key Ideas:

- When two markets are equally attractive, you should enter the one WITH competition.
- The hidden benefit of competition is knowing from the start that there's market of paying customers. The Iron Law of the Market is on your side!
- Become a customer of the competition to learn from them.

Questions for Consideration:

- Who does your competition serve? What value do they provide?
- What are they doing well? What are they struggling with?
- What can you do better than your competition?

The Mercenary Rule

“Make money your god and it will plague you like the devil.” — Henry Fielding, eighteenth-century novelist and satirist

Key Ideas:

- Don't be a mercenary: don't start a business for the money alone because it always takes more effort than you first expect.
- Building or finishing anything is mostly a matter of starting over and over again, so you should find a market that interests you enough to work on it every day.
- Don't ignore “boring” businesses – if you can find something that interests you, those markets can be very attractive.

Questions for Consideration:

- How interested are you in the market you're evaluating?
- Does your mind return to the market of its own accord, or do you have to push yourself to work on it?
- How can you make the market more interesting?

The Crusader Rule

“The zealous display the strength of their belief, while the judicious show the grounds of it.” — **William Shenstone**, eighteenth-century poet and landscape designer

Key Ideas:

- There’s huge difference between an interesting idea and a solid business. Remember that you have to be able to pay the bills!
- It’s okay if some ideas don’t have enough market support. Side-projects are valuable too, as long as you cover your finances first.
- It’s crucial to be objective and analyze the idea before committing to it. This is where the **Ten Ways to Evaluate the Market** can help you.

Questions for Consideration:

- Is your idea really a viable business, or would it make a better side project?

Twelve Standard Forms of Value

“Value is not intrinsic; it is not in things. It is within us; it is the way in which man reacts to the conditions of his environment.”— Ludwig von Mises, Austrian economist

Key Ideas:

- To provide value to another person, it must take on a form that they are willing to pay for.
- Economic Value usually takes one of the following forms:
 - Product
 - Service
 - Shared Resource
 - Subscription
 - Resale
 - Lease
 - Agency
 - Audience Aggregation
 - Loan
 - Option
 - Insurance
 - Capital

Questions for Consideration:

- Which forms of value make the most sense for your market?
- Are there any forms of value you haven't yet considered for your market? What might those offers look like?

Form of Value #1: Product

“Business is not financial science... it’s about creating a product or service so good that people will pay for it.” — Anita Roddick, entrepreneur and founder of The Body Shop

Key Ideas:

- Product-oriented businesses need you to:
 - Create something tangible that people want.
 - Produce it as inexpensively as possible while also having an acceptable quality.
 - Sell as many units as possible, at the highest price possible for the market.
 - Keep an inventory to deal with future orders.
- There are many kinds of products, like durable products, or consumable products, or even not physical products (think MP3).
- Products can be duplicated, multiplied, and therefore they scale better than other forms of value.

Questions for Consideration:

- Does delivering value as a product make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #2: Service

“Everyone can be great because everyone can serve.” — Martin Luther King, Jr., human rights activist

Key Ideas:

- A service is a form of value where you help and provide some type of benefit to someone, in exchange of a fee.
- Service-oriented business need you to:
 - Provide a skill (either yourself or through employees) other people require but can't or don't want to do by themselves.
 - Make sure that you are providing the service with consistent high quality.
 - Attract and retain paying customers.
- Services can be very lucrative but hard to duplicate, because your time and energy is finite.
- It's critical to charge enough to compensate the work put into it day after day.

Questions for Consideration:

- Does delivering value as a service make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #3: Shared Resource

"The joy that isn't shared dies young." — Anne Sexton, Pulitzer Prize-winning poet

Key Ideas:

- A shared resource is a durable asset that you create once, and then charge the customers for using it many times.
- To provide a shared resource form of value, you must:
 - Create an asset people want to use.
 - Serve as many people as possible without affecting each individual's experience.
 - Charge enough to maintain and improve the asset over time.
- Classic examples of this form of value are gyms, museums or amusement parks.
- It's critical to find a balance in usage levels of the asset: if you have few customers, you won't be able to spread out the costs, but if you have too many the asset will be overcrowded, which will diminish the experience for the user.

Questions for Consideration:

- Does delivering value as a shared resource make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #4: Subscription

“Please accept my resignation. I don’t want to belong to any club that will accept me as a member.” — Groucho Marx, comedian

Key Ideas:

- Subscription programs provide tangible or intangible benefits on an ongoing basis in exchange for a recurring fee.
- To create a successful subscription you must:
 - Provide value consistently to each subscriber.
 - Build a subscriber base and constantly attract more subscribers to compensate for attrition.
 - Bill customers on a regular basis.
 - Retain subscribers as long as possible.
- The attractiveness of subscription models is its predictability. This form of value ensures a certain revenue in every billing period.
- The key is to keep customer attrition as low as possible by keeping your subscribers happy and constantly attracting new customers.

Questions for Consideration:

- Does delivering value as a subscription / continuity program make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #5: Resale

“Buy low, sell high.” — Stock Trader’s Maxim

Key Ideas:

- Resale is, basically, purchasing an asset from another business to sell it later at a higher price.
- The keys to do this effectively are:
 - Purchase a product as inexpensively as possible, usually in bulk.
 - Keep the product in good condition until sale.
 - Find purchasers of the product quickly to lower inventory costs.
 - Sell the product for as high a markup as possible.
- Resale value lies in helping wholesalers sell without having to find individual customers.

Questions for Consideration:

- Does delivering value as a reseller make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #6: Lease

“The human species, according to the best theory I can form of it, is composed of two distinct races: the men who borrow and the men who lend.” — Charles Lamb, essayist

Key Ideas:

- The lease is the form of value where you acquire an asset and then allow another person to use it for a specific period of time in exchange for a fee.
- The keys to the lease are:
 - Acquire an asset people want to use.
 - Lease the asset to a paying customer on favorable terms.
 - Protect yourself from negative events, such as damage or loss of the asset.
- Leasing benefits the consumer by allowing him to use an asset without paying the higher price to acquire it.
- Because assets have limited useful life, be sure to charge enough to cover the purchase price and repair and replacement costs before it wears out or is lost.

Questions for Consideration:

- Does delivering value via a lease make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #7: Agency

"I wish to be cremated. One tenth of my ashes shall be given to my agent, as written in our contract." — **Groucho Marx**, comedian

Key Ideas:

- The agency focuses on marketing and selling an asset you don't own. By establishing a new relationship between a source and a buyer, you earn a commission.
- The keys to success in this form of value are:
 - Find a seller with a valuable asset.
 - Establish contact and trust with potential buyers of that asset.
 - Negotiate the terms of sale until an agreement is reached.
 - Collect the agreed-upon commission from the seller.
- The benefit for sellers is generating sales that without an agency might not happen.
- Buyers benefit by finding assets to buy that the agent, whom they trust, filters for them.
- It's critical to keep a high enough commission to make the effort worth it.

Questions for Consideration:

- Does delivering value via acting as an agent or affiliate make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #8: Audience Aggregation

“So long as there’s a jingle in your head, television isn’t free.” — **Jason Love**, marketing executive

Key Ideas:

- Audience aggregation focuses on capturing the attention of a group of a people with similar characteristics, and then selling access to that audience to a third party.
- The keys to provide value are:
 - Identify a group of people with similar characteristics or interests.
 - Consistently attract that group’s attention.
 - Find third parties interested in buying access to that audience.
 - Sell access to that audience without alienating it.
- This benefits the audience by providing something worthy of their attention.
- It benefits the advertiser because it gives him attention, which leads to sales.

Questions for Consideration:

- Does delivering value via audience aggregation make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #9: Loan

“Money talks — but credit has an echo.” — Bob Thaves, cartoonist and creator of “Frank and Ernest”

Key Ideas:

- A loan is an agreement to let a borrower use a certain amount of resources for a period of time in exchange for a series of payments over a predefined period of time, equal to the original loan plus an interest rate.
- The keys are:
 - Have money to lend.
 - Find people who want to borrow that money.
 - Set an interest rate that compensates you for the loan.
 - Estimate and protect in case the loan is not repaid.
- Loans allow people immediate access to products that they couldn't purchase outright.
- Loans are beneficial to the lender by benefiting from excess capital.
- It's critical to identify how risky each loan is, and take the appropriate steps to protect the loan going sour.

Questions for Consideration:

- Does delivering value via lending assets to others make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #10: Option

"You pays your money and you makes your choice." — Punch, nineteenth-century British comic magazine, 1846

Key Ideas:

- An option means taking a predefined action for a fixed period of time in exchange for a fee. Movie tickets are options!
- To provide value with this form of value you must:
 - Identify an action people might want to take in the future.
 - Offer potential buyers the right to take that action before a specific deadline.
 - Convince buyers that the action is worth the price.
 - Enforce the specified deadline on taking action.
- Options allow the purchaser the ability to take an action without requiring them to do so.
- Options help keeping specific courses of action open for a period of time before another transaction takes place.

Questions for Consideration:

- Does delivering value via offering options make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #11: Insurance

“Take calculated risks. That is quite different from being rash.”— **General George S. Patton**, commander of the U.S. Third Army in World War II

Key Ideas:

- Insurance focuses on transferring a risk from purchaser to seller in exchange for a series of payments. If something bad happens the insurer is responsible for the bill, and if it doesn't, the insurer keeps the money.
- The keys are:
 - Create a binding legal contract that transfers the risk of a specific bad thing happening from the policy holder to you.
 - Estimate the risk of that thing happening using available data.
 - Collect the agreed-upon payments over time.
 - Pay out legitimate claims upon the policy.
- Insurance protects the purchaser from a downside risk.
- It works because it spreads the risk over a large number of purchasers.
- Insurers focus on maximizing payments while minimizing claims, and must be on the lookout for “bad risks” and fraudulent activity.

Questions for Consideration:

- Does delivering value via offering insurance make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Form of Value #12: Capital

“Capital is that part of wealth which is devoted to obtaining further wealth.” —
Alfred Marshall, economist and author of *Principles of Economics*

Key Ideas:

- Capital is the purchase of an ownership stake in a business. If you have resources to allocate, you can provide capital to business owners to help them expand their business.
- To provide capital you must:
 - Have available resources to invest.
 - Find a promising business in which you'd like to invest.
 - Estimate the business' worth, its future growth, and the possibility of negative scenarios that would cause the loss of your capital.
 - Negotiate the amount of ownership to receive in exchange for the capital.
- By taking on investors, business owners can gather enough funds to expand quickly.
- By acquiring a certain percentage of the business, investors benefit from its activities without active involvement. Investors hope to receive a higher rate of return than other methods, like leaving the money in the bank.

Questions for Consideration:

- Does delivering value via providing capital make sense for your business idea?
- If so, what do you need to plan for to make it successful?

Hassle Premium

“All human situations have their inconveniences.” — **Benjamin Franklin**, early American political leader, scientist, and polymath

Key Ideas:

- People are almost always willing to pay for things that they believe are too much of a pain to take care of themselves. Where there's a hassle, there's a business opportunity.
- The project or task in question may:
 1. Take too much time to complete.
 2. Require too much effort.
 3. Distract from other priorities.
 4. Involve too much confusion, uncertainty, or complexity.
 5. Require prior experience.
 6. Require specialized resources or equipment that's difficult to obtain.
- The more hassle a project or task involves, the more people are generally willing to pay for an easy solution, or pay someone to complete the job on their behalf.

Questions for Consideration:

- Where is the hassle for your prospect?
- What can you do to eliminate it?

Perceived Value

“People don’t trade money for things when they value their money more highly than they value the things.” — Roy H. Williams, *The Wizard of Ads*

Key Ideas:

- Perceived value determines how much your customers will be willing to pay for your offer.
- The less attractive the End Result, and the bigger the involvement it takes to the user to get the benefit, the lower the perceived value will be.
- Create forms of value with the least end-user effort and best End Result possible to have the highest perceived value.

Questions for Consideration:

- Which forms have the highest perceived value?
- How can you remove effort or frustration for your customers?
- How much would they be willing to pay for those additional benefits?

Modularity

“Great things are not done by impulse, but by a series of small things brought together.” — Vincent van Gogh, artist

Key Ideas:

- Most successful businesses combine multiple Forms of Value to offer value in multiple ways.
- Usually these offers are handled separately and the customer can choose which one to take advantage of.
- By making offers modular, the business can create and improve offers in isolation, and later mix them as necessary.

Questions for Consideration:

- Could you offer value in multiple forms?
- What is the smallest unit of value you can create in each form?
- How could those forms be combined?

Bundling and Unbundling

“A bit of this and a bit of that is how newness enters the world.”— Salman Rushdie, novelist

Key Ideas:

- Bundling means repurposing value that you already created to create even more value by combining multiple small offers into one large offer.
- The more offers contained in a bundle, the higher the Perceived Value of the bundle will be.
- Unbundling is the opposite of bundling, it means splitting an offer into multiple smaller offers.
- Bundling and unbundling help creating value for different customers without having to create something new.

Questions for Consideration:

- Can you bundle or unbundle your offer? How?
- What could you offer if you did?

Prototype

"It's this simple: if I never try anything, I never learn anything."— Hugh Prather, author of *Notes to Myself*

Key Ideas:

- A prototype is an early representation of what your offer will look like.
- For best results, create your prototype as similar as possible to the finished model. The more realistic your prototype is, the easier it'll be for people to understand it and give you valuable feedback.
- The purpose is not to make it perfect. It's to quickly create something that you and others can see, evaluate and improve.

Questions for Consideration:

- How quickly can you create a prototype to show your potential customers?
- How tangible and realistic can you make it?
- Who can you ask for feedback?

The Iteration Cycle

"I have not failed. I've just found 10,000 ways that won't work."— Thomas A. Edison, prolific inventor

Key Ideas:

- The iteration cycle is a process that you can use to improve anything over time.
- It has six major steps, the WIGWAM method:
 - Watch: What works? What doesn't?
 - Ideate: What could you improve? What are your options?
 - Guess: Based on experience, which idea do you think will make the biggest impact?
 - Which? Decide which change to make.
 - Act: Make the change.
 - Measure: Was it positive or negative? Should you keep it or go back?
- Iteration is a cycle. Once you do it, you repeat it.
- The more clearly you define what you're after with each iteration, the better the feedback and the value you'll receive from each cycle.

Questions for Consideration:

- How are you currently using the iteration cycle?
- Which steps are you doing particularly well?
- Which steps do you typically skip?

Iteration Velocity

“Our goal is to have more at bats per unit of time and money than anyone else.” — Eric Schmidt, chairman and CEO of Google

Key Ideas:

- With every new offer, your primary goal should be to work through each iteration cycle as quickly as possible. The faster you move through the Iteration Cycle, the better your offering will become.
- The iteration is necessary extra work. The problem with creating the final version outright is risk: you are putting a lot of effort in something that may not sell.
- Iteration may take extra work, but after going through a few cycles, you'll have a deeper understanding of the market and your offer.

Questions for Consideration:

- Have you planned for multiple iterations?
- How quickly are you currently iterating?
- What can you do to make it easier to iterate even faster?

Feedback

*“No business plan survives first contact with customers.” —Steve Blank, serial entrepreneur and author of *The Four Steps to the Epiphany**

Key Ideas:

- Feedback helps you understand how well is your offering meeting your potential customers' needs before development is complete, which allows you to make changes before you start selling.
- Few tips to maximize the value of Feedback:
 - Listen to real potential customers instead of friends and family.
 - Ask open-ended questions.
 - Steady yourself, and keep calm. No one likes hearing that their offer sucks.
 - Take what you hear with a grain of salt. The worst response isn't empathetic dislike; it's total apathy.
 - Give potential customers the chance to preorder. If they are willing to buy from you, that's a green light!
- If no one is willing to preorder you should ask them why, to find out about their Barriers of Purchase.

Questions for Consideration:

- Where can you find potential customers to ask for feedback? What will you ask them?
- How can you pre-test their willingness to purchase the offering when it's ready?

Alternatives

“Until one is committed, there is hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative and creation, there is one elementary truth the ignorance of which kills countless ideas and splendid plans: that the moment one definitely commits oneself, the providence moves too.” —

W.H. Murray, mountaineer and writer

Key Ideas:

- As you develop your offer, you have to choose between the competing Alternatives.
- You should appreciate the Alternatives your customers face to decide what to include and what to leave out.
- Once you know the options, you can examine the combination that would make the most attractive offer.

Questions for Consideration:

- What alternatives are you facing right now as you develop your offering?
- What choices are your customers facing when they decide whether or not to patronize your business?

Trade-offs

“I can’t give you a surefire formula for success, but I can give you a formula for failure: try to please everybody all the time.”— Herbert Bayard Swope, Pulitzer Prize–winning journalist

Key Ideas:

- A trade-off is a decision that places higher value on one of several competing options. You can’t do everything, resources are limited.
- When deciding what to include in your offer, you should look for Patterns that will help you realize what your *best* customers value, and focus on improving your offering for *most* of your best potential customers *most* of the time.
- You can’t make everyone happy, perfection shouldn’t be a goal.

Questions for Consideration:

- What are some of the potential tradeoffs your customers are facing when they evaluate your offer?
- Where do these tradeoffs come from?

Economic Values

“A successful business is either loved or needed.” — **Ted Leonsis**, former executive at AOL and owner of the Washington Wizards and Washington Capitals

Key Ideas:

- If the benefits of an offering are appealing, there are nine common Economic Values that people consider when evaluating a potential purchase:
 - Efficacy: how well does it work?
 - Speed: how quickly does it work?
 - Reliability: can I depend on it?
 - Ease of use: how much effort does it require?
 - Flexibility: how many things does it do?
 - Status: what does it tell about me to others?
 - Aesthetic appeal: how aesthetically pleasing is it?
 - Emotion: how does it make me feel?
 - Cost: how much do I have to give up to get it?
- Most improvements focus either on convenience (Domino's delivery) or fidelity (table at Pizza Uno). It's very difficult to improve both.
- The trade-offs made in the development give the offering its unique identity and overall value.

Questions for Consideration:

- What values could you emphasize for your offering?
- Is your offering optimized for fidelity or convenience, or are you trying to be all things to all people?

Relative Importance Testing

“Things which matter most must never be at the mercy of things which matter least.” — Johann Wolfgang von Goethe, nineteenth-century dramatist, poet, and polymath

Key Ideas:

- People never accept Trade-offs, unless they are forced to make a Choice. Since perfection doesn't exist, people happily settle for the Next Best Alternative.
- Relative Importance Testing lets you determine what people actually want by asking them questions designed to simulate real life trade-offs.
- By asking the participant to choose, you collect more accurate information about how the participant would respond when faced with a similar choice in the real world.
- The more sets of questions each participant completes, the more clearly you'll be able to judge the relative importance of each benefit.
- Relative Importance Testing helps you define which benefits you should focus on to make your offer as attractive as possible.

Questions for Consideration:

- What values or qualities could you test as you develop your offering?
- How could you use Relative Importance Testing to gain additional information about what your potential customers want?

Critical Assumptions

"It is better to be roughly right than precisely wrong." — **John Maynard Keynes**, economist

Key Ideas:

- Critical Assumptions are facts or characteristics that must be true in the real world for your offering to be successful.
- Every business has Critical Assumptions that will define if it can survive or not.
- The more accurately you can identify and test these assumptions, the less risk you'll be facing.

Questions for Consideration:

- What are the assumptions behind your idea that, if you found out they weren't true, would sink your idea?
- What has to be true in order for you to succeed?

Shadow Testing

“Praemonitus praemunitus (forewarned is forearmed).” — Roman Proverb

Key Ideas:

- Shadow testing means selling an offer before it actually exists (you have to be upfront with your customers that the offering is still in development).
- Shadow testing allows you to get critical feedback: whether or not people are willing to buy your offering.
- You can minimize the risk of your project by gathering data from real customers as soon as possible.

Questions for Consideration:

- How can you test the accuracy of your critical assumptions quickly and inexpensively, before you commit to moving forward?
- What can you test before creating your entire offering?

Minimum Viable Offer

“If you’re not embarrassed by the first version of your product, you’ve launched too late.” — Reid Hoffman, founder of LinkedIn

Key Ideas:

- A Minimum Viable Offer is an offer that provides the smallest number of benefits necessary to make a sale. In other words, it’s a Prototype that people are willing to purchase.
- Creating a Minimum Viable Offer helps you gather Feedback from real customers quickly, and therefore test the idea’s Critical Assumptions.
- The purpose of the Minimum Viable Offer is to minimize the risk of the project by keeping the investment small and quickly discovering what works and what doesn’t.

Questions for Consideration:

- What could your Minimum Viable Offer look like?
- What’s the shortest path between right now and taking orders on your potential offering?
- How can you start testing your CIAs as quickly as possible?

Incremental Augmentation

“Pick three key attributes or features, get those things very, very right, and then forget about everything else... By focusing on only a few core features in the first version, you are forced to find the true essence and value of the product.” —

Paul Buchheit, creator of Gmail and Google AdSense

Key Ideas:

- Incremental Augmentation is the process of using the Iteration Cycle to add new benefits to an existing offer.
- Incremental Augmentation helps you minimize the risk by not putting all the pressure in a single iteration.
- Incremental Augmentation has its limits. To enter a new market, or change the existing one, you may need to create something new.

Questions for Consideration:

- Have you planned for post-launch iteration?
- What features can you eliminate from your Minimum Viable Offer that you can add later, once you’ve validated your CIAs?

Field Testing

“Any engineer that doesn’t need to wash his hands at least three times a day is a failure.” — **Shoichiro Toyoda**, former chairman of the Toyota Motor Corporation

Key Ideas:

- Field Testing means creating, using and iterating your offering before offering it to customers.
- Field Testing is a critical step in the Iteration Cycle, helping you find flaws in your offering.
- The purpose of Field Testing is to minimize risk, by making sure that the offering works before trying to sell it.

Questions for Consideration:

- Do you use what you make every day?
- How can you expose your offer to the rigors of field testing before and after it’s made available to your customers?

Chapter 2: Marketing

The cardinal marketing sin is being boring. — **Dan Kennedy**, marketing expert

Attention

“In an attention economy (like this one), marketers struggle for attention. If you don’t have it, you lose.” — Seth Godin, best-selling author of *Permission Marketing*, *Purple Cow*, and *Tribes*

Key Ideas:

- The most important rule of Marketing: our Attention is limited. People are expert at filtering, because they can’t pay attention to everything.
- To be noticed you need to find a way to be more interesting or useful than your competition.
- You don’t want_ just_ Attention. You want the attention of prospects who will *ultimately* purchase from you.
- Business is about making sales, not winning a popularity contest.

Questions for Consideration:

- Whose attention are you trying to get? How? Why?
- What’s in it for them? Why should they care?

Receptivity

“They say it takes 7 exposures to a product ad before you’ll want to buy it, but after 8,743 spam emails for Viagra, I still don’t want it!” — Erin Pavlina, intuitive counselor and blogger at erinpavlina.com

Key Ideas:

- Receptivity is a measure of how open a person is to your message. People ignore what they don’t care about.
- The form and customization of your message influences how receptive people are to the information it contains.
- The two primary components of Receptivity are “what” and “when.” People are receptive to certain things at certain times.

Questions for Consideration:

- How, when, and where are your probable purchasers most receptive to hearing from you?
- How can you be present where and when people are looking for you?

Remarkability

“Advertising is the tax you pay for being unremarkable.” — Robert Stephens, founder of Geek Squad

Key Ideas:

- Being Remarkable is the best way to attract Attention. It makes your offering worth noticing and talking about.
- You should design your offer to be Remarkable in order to pique your prospect’s curiosity.
- Aim for the edges, that’s where remarkability is.

Questions for Consideration:

- How can you make your offer more remarkable or attention-worthy?
- What could you do to make it stand out?

Probable Purchaser

*“There are 6 billion people on this planet. 99.999% of them would rather not give you their money.” — Hugh MacLeod, cartoonist and author of *Ignore Everybody**

Key Ideas:

- Your Probable Purchaser is the type of person who is perfectly suited to what you are offering.
- Don't try to get everyone's Attention. Focus on getting the attention of the right people at the right time.
- By spending your limited resources on the people who are already interested in what you are offering, you'll maximize the effectiveness of your efforts.

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Questions for Consideration:

- Who is your probable purchaser?
- How would you describe your probable purchaser? Can you write or draw a profile of them?

Preoccupation

“You wouldn’t worry so much about what others think of you if you realized how seldom they do.” — **Eleanor Roosevelt**, former First Lady of the United States

Key Ideas:

- In order to earn the Attention of a prospect, you must divert their attention from what they’re already doing.
- Assume your prospects begin in a state of Preoccupation.
- The best way to break a potential prospect’s Preoccupation is to provoke a feeling of curiosity, surprise, or concern.
- The stronger and more emotionally compelling the stimuli, the easier it is to attract attention.

Questions for Consideration:

- What are your prospects preoccupied with vs. paying attention to you?
- What attention-grabbing claim or evocative image or story can you create to break that preoccupation?

End Result

What is an “End Result”?

“People don’t buy quarter-inch drills; they buy quarter-inch holes.” — Theodore Levitt, economist and former professor at Harvard Business School

Key Ideas:

- Marketing works better when it focuses on the End Result. People don’t buy books, they buy *knowledge*.
- It’s more comfortable to focus on features, on what your offer *does*_, *but it’s more effective to focus on benefits, what your offer provides.*_
- The End Result is usually an experience related to a Core Human Drive._

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Questions for Consideration:

- What is the end result your prospects are looking for?
- Is the focus on what you’re providing, or on the end result your customer will achieve if they buy from you?

Qualification

“The product that will not sell without advertising will not sell profitably with advertising.” — Albert Lasker, former CEO of Lord & Thomas and pioneer of modern advertising

Key Ideas:

- Qualification is the process of determining whether or not a prospect is a good customer before they purchase from you.
- Qualification helps to avoid wasting time and energy on customers that aren't a good fit.
- Not every customer is a good customer. Customers that require more than what they are worth, aren't worth attracting in the first place.
- Some businesses actively encourage their customers to purchase from the competition if they are not a good fit.
- The more clearly you can define your ideal customer, the better you can screen out the customers that are not worth your effort, and the more you'll be able to focus on your best customers.

Questions for Consideration:

- What can you do to disqualify the prospects you don't want as quickly as possible?
- What characteristics are you looking for in your ideal customer, and how might you look for them in advance

Point of Market Entry

“There is nothing harder than the softness of indifference.” — Juan Montalvo, essayist

Key Ideas:

- A Point of Market Entry is the point where a potential customer becomes receptive to your offering. It's highly likely that you won't care about wheel chairs until you need one.
- Certain markets have clearly defined entry and exit points, like diapers. Other markets are more imprecise.
- It's best to find out when people are interested in hearing from you before you reach out in order to avoid wasting resources.
- If you can get a prospective customer's attention as soon as they become interested in what you're offering, you become the standard by which competition will be evaluated.
- It's important to discover where your probable purchasers start looking for information after crossing the interest threshold.

Questions for Consideration:

- Is there a clear point of market entry for probable purchasers in your market?
- If so, how can you get the attention of these prospects as soon as they enter the market?

Addressability

“Sometimes the road less traveled is less traveled for a reason.” — Jerry Seinfeld, comedian

Key Ideas:

- Addressability is a measure of how easy it is to get in touch with people who might want what you’re offering.
- It’s far better to focus on an addressable audience, like skaters, than a non-addressable one, because Receptivity is varies from audience to audience.
- By targeting an addressable audience, the risk of not reaching prospects decreases greatly.

Questions for Consideration:

- What do your probable purchasers pay active attention to?
- Do they congregate in groups you have (or can obtain) access to in a quick and cost-effective way?

Desire

"BUT I REALLY WANT IT!!!" — Two-year-old children everywhere

Key Ideas:

- You need to produce a strong feeling of Desire in your customers for they to want what you have, and to be willing to purchase from you.
- Provoking desire usually makes people uncomfortable because they fear that they are “manipulating” people, but in reality no one wants something that they don’t already desire.
- The key is discovering what people already want, and then presenting an offer that intersects with the preexisting desire.
- Your job is not to convince people, but to help them convince themselves that your offering will help them get what they want.
- People’s wants start at the Core Human Drives. The more drivers you connect with, the more effective your offering will be.

Questions for Consideration:

- Is your marketing focused on encouraging your prospects to desire what you have to offer?
- What can you do to inspire a visceral feeling of desire in your prospects?

Visualization

“When your work speaks for itself, don’t interrupt.” — Henry J. Kaiser, pioneer of modern shipbuilding and founder of Kaiser Permanente

Key Ideas:

- The most effective way to get people to want what you offer, is to encourage them to Visualize how their lives would be if they accept it.
- The best way to help your customers visualize is to expose them to as much sensory information as possible.
- The goal of Visualization is to stop comparing and start *wanting*.

Questions for Consideration:

- Are you encouraging your prospects to visualize what their life would look like if they accepted your offer?
- How can you guide them to use their imagination while considering your offer?

Framing

“Everything we hear is an opinion, not a fact. Everything we see is a perspective, not the truth.” — Marcus Aurelius, Roman emperor and philosopher

Key Ideas:

- Framing is the act of emphasizing the critical details of your offering and deemphasizing the others.
- You can't include every detail on your message. We frame because we have limited time and people have limited attention.
- By emphasizing certain benefits of your offer, you can maximize persuasive power.
- Framing is not the same as lying. Few more sales in the short term will eventually decrease customer satisfaction and permanently harm your Reputation. It's critical not to leave out information that your customers have the right to know.

Questions for Consideration:

- What particular parts of your offer are you emphasizing, and why?
- How can you use framing to present your offer in the best light?
- In the interest of honesty, are you minimizing any important details that your prospects should know?

Free

“To charge nobody nuthin’ is a guarantee of no profit. Getting attention is not the same as getting paid.” — Joseph Ferrara, intellectual property attorney

Key Ideas:

- Free attracts attention quickly. People love getting something for nothing.
- Free gives your potential customers a chance to experience the value you provide. It may net you sales that you wouldn’t have had otherwise.
- It’s critical to remember that attention alone doesn’t pay the bills. Focus on giving away real value that attract real, paying customers.

Questions for Consideration:

- How could you take advantage of the attention-grabbing nature of offering free value?
- How will you translate that attention into real prospective customers?

Permission

“Selling to people who actually want to hear from you is more effective than interrupting strangers who don’t.” — Seth Godin

Key Ideas:

- Permission is more valuable than interruption. Permission is a real asset.
- The best way to get Permission is to ask for it. Whenever you provide value to people (e.g.: Free), ask them if it’s okay to continue to give them more value in the future.
- The goal is to make the list of prospects that have given you permission to grow. The more it grows, the more sales you’ll eventually land.
- Don’t abuse the privilege. Make it clear for your customers what they’ll be getting and how it’ll benefit them. Never spam!

Questions for Consideration:

- Are you currently asking for permission to follow-up with your prospects?
- How are you using that permission to encourage your prospects to become paying customers?

Hook

“If you can do it, it ain’t braggin’.” — Dizzy Dean, Hall of Fame baseball player

Key Ideas:

- A Hook is a single phrase or sentence that describes an offer’s primary benefit.
- When creating a Hook, emphasize what’s uniquely valuable about your offer and why people should care. Remember: it takes time. Crafting a Hook is a creative exercise.
- The better your Hook, the more Attention you’ll grab, and the easier it’ll be for your message to spread.

Questions for Consideration:

- Can you communicate what makes your offer uniquely valuable in a single, simple sentence?
- Does your hook imply a benefit while describing what your offer does?

Call-To-Action (CTA)

"Don't make me think." — Steve Krug, usability expert

Key Ideas:

- If you want a prospect to take the next step you need to give them a Call To Action (CTA): tell them exactly what to do. Visit a website, check your e-mail, call a phone number.
- The key for an effective CTA is to be as simple, clear and obvious as possible.
- The best CTAs call directly for a sale or for Permission to follow up.

Questions for Consideration:

- Are you clearly directing your prospects to take a single, simple, obvious action?
- If not, what can you tell them to do next?

Narrative

“A tale in everything.” — William Wordsworth, poet

Key Ideas:

- A good story is a great way to improve an offer. Story telling is part of human nature.
- Most compelling stories follow a typical format: the story of the Hero. Your customers want to be heroes. They want to be successful, powerful, admired and determined.
- Telling a story of someone who has already walked the path your prospect is considering is a powerful way to make them interested.
- The more vivid, clear and compelling your story, the more prospects you'll attract.

Questions for Consideration:

- What story are you currently presenting to your prospects?
- Is it emotionally compelling? Is it memorable?
- How could you improve the story you tell to your prospects?

Controversy

"If you want an audience, start a fight." — Irish Proverb

Key Ideas:

- Controversy means publicly taking a position that not everyone will agree with, approve of, or support. Used constructively, it's very effective to attract Attention.
- If you agree with everyone, your position is boring and no one will care.
- It's okay to disagree, call out or position against something, because it provokes discussion, and discussion is Attention.
- Controversy with an ethical purpose is valuable. Controversy for the sake of controversy is not. Always keep your goal in mind.

Questions for Consideration:

- Are you attempting to avoid controversy, or are you embracing it as a valuable tool to attract attention?
- How can you benefit from controversy without turning yourself into a soap opera?

Reputation

“Like it or not, the market’s perception becomes your reality.”— Howard Mann, actor and comedian

Key Ideas:

- Reputation is what people think about a company or offer.
- Building a strong reputation is very valuable; people are willing to pay more for a good reputation.
- It’s critical to understand that you don’t control your reputation, people will decide what your reputation is. You can’t “manage” it. You can only improve it over time by making sure that those who do business with you are glad they did.
- Building a good reputation takes time and effort, but it’s the most effective kind of marketing there is.

Questions for Consideration:

- What is the current state of your reputation?
- It is steadily increasing or decreasing?
- What can you do to improve your reputation over time?

Chapter 3: Sales

“People don’t like to be sold, but they love to buy.” — **Jeffrey Gitomer**, author of *The Sales Bible* and *The Little Red Book of Selling*

Transaction

“There is only one boss: the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.” —

Sam Walton, founder of Wal-Mart

Key Ideas:

- A transaction is an exchange of value between two or more parties.
- Sales are the only point where resources flow into the business, so Transactions are critical.
- You can only transact with things that are Economically Valuable.
- The goal is to make the first profitable Transaction as quickly as possible, because that’s when you transition from a project to a business.

Questions for Consideration:

- How many transactions are you completing each day?
- Are you offering anything that’s not economically valuable?

Trust

“The secret of life is honesty and fair dealing. If you can fake that, you’ve got it made.” — Groucho Marx

Key Ideas:

- Without Trust, no Transaction will take place.
- Building a trustworthy Reputation over time through honesty and fair dealing is the best way to build Trust.
- The easier both parties can verify that the other party is trustworthy, the easier it is to make a Transaction.

Questions for Consideration:

- How much do your potential customers trust you right now?
- What can you do to demonstrate that you’re trustworthy?
- How can you verify that your customers can keep their promises to you before you sell to them?

Common Ground

“A compromise is the art of dividing a cake in such a way that everyone believes he has the biggest piece.” — Ludwig Erhard, politician and former chancellor of West Germany

Key Ideas:

- Common Ground is a state of overlapping interests between two or more parties.
- It's far easier to reach Common Ground if you understand the needs of your Probable Purchaser.
- Aligning interests is critical to reach Common Ground, and consequently, a Transaction. Sales isn't about convincing someone to buy what they don't want.
- Negotiation is the process of exploring different paths to reach Common Ground. The more paths you explore, the more likely you'll find interests that overlap.

Questions for Consideration:

- How much common ground do you have with the party you're negotiating with?
- What do they want, and how can you help them?
- What potential options could you explore?

Pricing Uncertainty Principle

What is the “Pricing Uncertainty Principle”?

“Everything you want in life has a price connected to it. There’s a price to pay if you want to make things better, a price to pay just for leaving things as they are, a price for everything.” — Harry Browne, author of Fail-Safe Investing

Key Ideas:

- The Pricing Uncertainty Principle states that all prices are arbitrary and malleable. Pricing is an executive decision. You can charge whatever you want!
- The key is being able to support the asking price for a customer to accept it. You must be able to provide a Reason Why the price is worth paying.
- Keep in mind that, in general, people prefer to pay as little as possible for what they want (with some exceptions, discussed in Social Signaling).

Questions for Consideration:

- How are you currently deciding to set your prices?
- How are you supporting that price?

Four Pricing Methods

“Money is better than poverty, if only for financial reasons.” — Woody Allen, comedian, screenwriter, and director

Key Ideas:

- There are four ways to support a price: replacement cost, market comparison, discounted cash flow/net present value and value comparison.
- The Replacement Cost method answers the question: “how much would it cost to replace?” figure out how much would it cost to replace, add your desired mark-up, and set your price.
- The Market Comparison method answers the question: “how much are other things like this selling for?” Find a similar offer, and price yours accordingly.
- The Discounted Cash Flow (DCF)/Net Present Value (NPV) method answers the question: “how much is it worth if it can bring in money over time?” The more profit the business generates each month, the higher the price.
- The Value Comparison method answers the question: “who is this valuable to?” This is typically the best way to price your offer, since its value to a specific group can be quite high, resulting in a better price.

Questions for Consideration:

- What price are you currently asking for your offer?
- How are you supporting that price?
- Is it feasible to raise the price by supporting that price differently?

Price Transition Shock

““If you want to grow old as a pilot, you’ve got to know when to push it, and when to back off.” — **Chuck Yeager**, first pilot to break the sound barrier

Key Ideas:

- When you change the price of an offer, the effects aren’t limited to your current target market. Often, you’ll experience a sudden shift in the target market your offer appeals to: a Price Transition Shock.
- A change in prices can change your typical prospect overnight.
- As you test different pricing strategies, you’ll notice certain thresholds where you stop appealing to certain types of customers and start appealing to customers with very different characteristics.

Questions for Consideration:

- What price points have you tested? What types of prospects did you attract at those prices?
- If you raised or reduced your prices, what types of prospects would you attract?

Value-Based Selling

"Price is what you pay. Value is what you get." — Warren Buffett

Key Ideas:

- Value-Based Selling is the process of understanding and reinforcing the reasons why your offer is valuable to the purchaser.
- Though Value-Based Selling, you increase the likelihood of a transaction as well as the price the purchaser is willing to pay.
- Value-Based Selling is about listening, not talking. By asking your prospects what they need, you:
 - Increase the prospect's confidence in you and your understanding of the situation.
 - Discover information that will help you emphasize how valuable your offer is, and how to Frame your price appropriately.
- Discover how, why and how much your offer will benefit the customer, and you'll be able to connect more effectively, and ultimately land more sales.

Questions for Consideration:

- Why is this purchase in the customer's best interest?
- If your prospective customer purchases your offer, how will they benefit?
- How can you frame your offer's price as a small fraction of the value they'll receive?

Education-Based Selling

“Upgrade your user, not your product. ‘Value’ is less about the stuff and more about the stuff the stuff enables. Don’t build better cameras—build better photographers.” — Kathy Sierra, author and cocreator of the *Head First* series of books

Key Ideas:

- Education-Based Selling is the process of making your prospects better and more informed customers.
- By investing time and energy in making your customers smarter, you simultaneously build Trust and make them more interested in your offer.
- Remember that to do this properly, you have to know more than your customers. Otherwise, you’ll scare them away.

Questions for Consideration:

- What are you doing to make your prospects smarter, more informed customers?
- How can you make them more knowledgeable in a way that helps them understand the benefits of your offer?

Next Best Alternative

“When others sense your willingness to walk away, your hand is strengthened... Sometimes you are better off not getting to yes.” — Robert Rubin, former U.S. secretary of the treasury

Key Ideas:

- Your Next Best Alternative is what you'll do if you can't find Common Ground with the other parties. Remember: the other party always has a Next Best Alternative as well.
- Understanding the other party's Next Best Alternative is extremely helpful: you can structure the agreement to make it more attractive than the other option.
- In every negotiation, the power lies with the party that is able and willing to walk away from a bad deal. The more attractive your alternatives, the more you're willing to walk away, and the better your deals.

Questions for Consideration:

- What's your next best alternative to the deal you're considering?
- What's your next best alternative to the deal your prospects are considering?
- Is your offer better than your prospect's next best alternative?

Exclusivity

“The best strategy is always to be very strong.” — **Carl von Clausewitz**, military strategist

Key Ideas:

- In most sales situations, it's in your best interest to maintain Exclusivity: creating a unique offer or quality that other firms can't match.
- If you're the only person or company that offers what your prospect wants, you're in a very strong position to negotiate on favorable terms .
- Exclusive offers make it much easier to maintain high Perceived Value, since there's no direct competition.
- Exclusive offers are easier to create when you're creating something new, which means an exclusivity strategy makes the most sense for Products and Services.

Questions for Consideration:

- Do you have any exclusive offers?
- What would you need to do to create an exclusive offer with high profit margins?

Three Universal Currencies

"Time will take your money, but money won't buy time." — James Taylor, musician

Key Ideas:

- In every negotiation there are three primary Currencies:
 - Resources. Tangible items like money, oil, etc.
 - Time.
 - Flexibility. The cost of not doing something else, which is a very real Opportunity Cost
- Focus on the appropriate trade-offs between the parties to find Common Ground in these Currencies.
- By mixing these currencies in different ways, it's easier to reach an agreement that the parties can agree with.

Questions for Consideration:

- Do a quick audit: how much resources, effort, and flexibility to you have at your disposal?
- Which of these currencies would you most like to increase?
- How can you trade for more of what you value?

Three Dimensions of Negotiation

“The first thing to decide before you walk into any negotiation is what to do if the other fellow says no.” — Ernest Bevin, former British secretary of state for foreign affairs

Key Ideas:

- The Three Dimensions of Negotiation are setup, structure and discussion.
- Setup involves setting a stage for a positive outcome of the negotiation. The environmental factors play a huge role in the negotiation, so it pays to do appropriate research to gain as much knowledge as possible about your negotiating partner.
- Structure is the terms of the proposal. By thinking on the Structure of your proposal in advance, you can have valuable options for your partner to consider, and eventually reach Common Ground.
- Discussion is actually presenting the offer to the other party. This is where you work on the details, remove Barriers to Purchase, and more. Discussion continues until the parties reach an agreement or quit negotiating.
- Prepare the Three Dimensions of Negotiation to increase greatly the chances of reaching an agreement that benefits both parties.

Questions for Consideration:

- Have you thought through the set-up of your deal? How will you structure and frame your proposal?
- What’s your plan walking into the discussion phase?
- How can you prepare as thoroughly for this negotiation as possible, given your available time?

Buffer

“Zeal without knowledge is the sister of folly.” — Sir John Davies, Elizabethan poet and lawyer and former attorney general of Ireland

Key Ideas:

- A Buffer is a third party empowered to negotiate on your behalf. Agents, attorneys, etc. are all examples of Buffers.
- Depending on the agreement, your Buffer's priorities may be very different from your own. Be mindful of Incentive-Caused Bias.
- If possible, work with a Buffer who is willing to accept a flat fee. Their interests will be more aligned with yours when they are paid no matter what happens.
- Don't let your buffer replace your own judgment. Don't give total control of your decisions or resources to your Buffer.

Questions for Consideration:

- Does this negotiation situation call for a buffer?
- If so, is your buffer's incentives closely aligned with your own?

Persuasion Resistance

“Sales are contingent upon the attitude of the salesman, not the attitude of the prospect.” — *W. Clement Stone*, insurance salesman, philanthropist, and author

Key Ideas:

- One of the things that makes prospects uncomfortable around salespeople is the feeling that they’re going to get the “hard sell” or be tricked into agreeing to something that’s not in their best interest.
- *Reactance* occurs when a prospect senses that someone is trying to compel them to do something; they automatically resist and attempt to move away from the conversation.
- *Desperation* is a negative trust signal.
- *Chasing* is a threat signal.
- It’s much better to present yourself with confidence.

Questions for Consideration:

- Have you ever provoked reactance?
- Have you ever signaled desperation or chasing? What happened?
- How can you practice selling with confidence, as an “assistant buyer”?

Reciprocation

“Gifts are never free: they bind the giver and receiver in a loop of reciprocity.” —
Marcel Mauss, sociologist and anthropologist

Key Ideas:

- Reciprocation is the desire most people feel to “pay back” for what they received. This is one of the most powerful psychological tendencies underlying human cooperation.
- The desire to reciprocate is not necessarily in proportion to the benefit provided.
- The more value you can provide upfront, the more likely it is that people will feel the need to reciprocate.
- Being generous is one of the best things you can do to build your Reputation and to improve your results as a salesperson.

Questions for Consideration:

- Are you providing value to others with no strings attached?
- Are you providing others the ability to reciprocate your gesture by offering you value in return?

Damaging Admission

“We confess our little faults to persuade people that we have no large ones.” —
François de La Rochefoucauld, seventeenth-century French courtier and aphorist

Key Ideas:

- Damaging Admission means acknowledging potential risks an offer may have.
- Making a Damaging Admission can actually increase your prospects’ Trust in your offering, because it shows integrity.
- Be upfront regarding your drawbacks and Trade-offs. They know you’re not perfect, so don’t pretend to be.

Questions for Consideration:

- Who is your offer *not* for?
- What are the drawbacks or tradeoffs?
- Would a damaging admission increase the trust your customers have in you?

Barriers to Purchase

“Selling begins when the prospect says “no.”” — Sales Maxim

Key Ideas:

- Selling anything is largely the process of identifying and eliminating Barriers to Purchase: anything that prevents your prospect from buying what you offer.
- These are the five standard objections in every sales process:
 - Loss Aversion: It costs too much. Makes spending feel like a loss.
 - It won't work.
 - It won't work for me.
 - I can wait.
 - It's too difficult.
- It's smart to structure your offer with those objections in mind:
 - Objection #1 is best addressed via Framing and Value-Based Selling. If it's clear that the value of your offer exceeds the asking price, the objection is moot.
 - Objection #2 and #3 are best addressed via Social Proof. Show the prospects how others like them are benefiting from the offer. That's why Referrals are such a powerful tool.
 - Objection #4 and #5 are best addressed via Education-Based Selling. If the customer doesn't realize they have a problem, they won't be looking for a solution. Focus your early efforts in making them smarter and then helping them Visualize what would happen if they proceed.
- Once you have their Attention and Permission, there are two possible tactics if they still have objections:
 - Convince them that the objection isn't true.
 - Convince them that the objection is irrelevant.
- If the prospect still doesn't buy, it may be a problem of Power. Always try to negotiate with the decision-maker, the one who has the Power to buy.

Questions for Consideration:

- What objections might your prospects have to your offer?

- What barriers are preventing them from saying 'yes'?
- How can you alleviate their objections and remove as many barriers as possible?

Risk Reversal

“If you want a guarantee, buy a toaster.” — Clint Eastwood, Academy Award-winning actor

Key Ideas:

- Risk Reversal is a strategy that transfers some (or all) of the risk of a transaction from the buyer to the seller. The seller agrees to make things right in advance if the purchaser doesn't end up satisfied.
- Risk Reversal is a great way to eliminate some Barriers to Purchase.
- This strategy may be feel uncomfortable to the seller as well, because no one wants to lose. The difference is that a seller can spread that risk among many customers. The customer can't do the same.
- By eliminating the risk of purchase, you'll close more sales and eventually make more money than what you'll lose if some customers take advantage of your generosity.

Questions for Consideration:

- How can you convince your prospects that this is a zero-risk transaction?
- What risks can you transfer from the prospect to yourself?

Reactivation

*“Every company’s greatest assets are its customers, because without customers there is no company.” — Michael LeBoeuf, business professor and author of *How to Win Customers and Keep Them for Life**

Key Ideas:

- Reactivation is the process of convincing past customers to buy from you again.
- Reactivation is a quicker, simpler and more effective way of increasing revenue than attracting new customers, because those who are reactivated already know you and trust you. Your cost of customer acquisition is extremely low.
- Reactivation works better if you have Permission from your customers to follow up.
- Reactivation is a great strategy to go back to every now and then to increase revenue.

Questions for Consideration:

- How long has it been since you’ve presented an offer to your customers?
- How can you convince your previous customers to purchase from you once again?

Chapter 4: Value-Delivery

A satisfied customer is the best business strategy of all. —Michael LeBoeuf,
business professor and author of *How to Win Customers and Keep Them for Life*

Value Stream

“Great design is eliminating all unnecessary details.” – Minh D. Tran

Key Ideas:

- A Value Stream is the set of all steps from the start of your value creation until the delivery of the end result to your customer.
- The Value Stream is basically the combination of your Value Creation and Value Delivery processes.
- The best way to understand your Value Stream is to diagram it. This can help you see where you can improve the value of your offering.
- It's best to try to make your Value Stream as small and efficient as possible. The longer the stream, the greater the risk of things going wrong.

Questions for Consideration:

- What does the process you use to create and deliver value to real paying customers look like? Can you diagram it?
- Do the value-creation and value-delivery processes fit together seamlessly?

Distribution Channel

“Unless a person is a clam digger, a trapper, or an old-style pick-and-shovel prospector, it’s virtually impossible these days to be a success all by oneself.” — Benjamin F. Fairless, former head of U.S. Steel

Key Ideas:

- A Distribution Channel describes how your offer will be delivered to the end user.
- There are two types of Distribution Channels:
 - Direct-to-user Distribution: single channel, from the business directly to the end user. This is the case of many services like getting a haircut or a car wash. It’s effective but you can only serve as many customers as your time and energy allow.
 - Intermediary distribution: multiple channels, usually through Resellers. The business that created the product can sell it to many Resellers, increasing its reach and sales. The drawback is that it requires giving up certain control over your delivery process, which could hurt your Reputation if the other Reseller doesn’t perform well.
- You can’t set and forget your Distribution. If you work with multiple channels, you need to make sure that they are representing your business well.

Questions for Consideration:

- What distribution channels may be available for your offering?
- How can you maximize your distribution options without risking your reputation?

Expectation Effect

What is the “Expectation Effect”?

“Never promise more than you can perform.” — Publilius Syrus, first-century B.C.
Syrian aphorist

Key Ideas:

- A customer’s perception of quality relies on expectations and performance. The equation $\text{Quality} = \text{Expectations} + \text{Performance}$ is the Expectation Effect.
- After a purchase is made, the performance of the offering must surpass the expectations for the customer to be satisfied. If performance is better than expectations, the perception of the offering will be high.
- Do whatever you can to provide something that unexpectedly delights your customers.

Questions for Consideration:

- What do you customers expect going into a transaction?
- How can you deliver on that consistently, then give them something unexpected and valuable?

Predictability

"I have always believed that for a product or service to thrive, it must deliver quality. A fine product or service is its own best selling point." — Victor Kiam, former owner of Remington and the New England Patriots football team

Key Ideas:

- Predictability means providing exactly what the customer expects. Unexpected surprises are only good as long as you provide what the customer is looking for.
- There are three factors that influence Predictability:
 - Uniformity. It means delivering the same characteristics every time.
 - Consistency. It means delivering the same value over time.
 - Reliability. It means being about to count on delivery of the value without error or delay.
- The more predictable you become, the more you'll increase the perceived quality of your offering.

Questions for Consideration:

- How consistent is the value you're offering to your customers?
- How reliable is your offering?
- How can you ensure every paying customer receives the value they paid for at the same high standard?

Throughput

“However beautiful the strategy, you should occasionally look at the results.” —
Winston Churchill, prime minister of Great Britain during World War II

Key Ideas:

- Throughput is the rate at which a system achieves its desired goal. It's the measure of effectiveness of your Value Stream.
- It's measured in the form of rate/time: the higher the rate and the lower the time, the higher the throughput.
- To measure it you need clearly defined objectives:
 - Dollar Throughput is a measure of how quickly your business creates a dollar of profit.
 - Unit Throughput is a measure of how much time it takes to create an extra unit to sale.
 - Satisfaction Throughput is a measure of how much time it takes to create a happy customer.
- By improving the process you create and deliver value, you will improve quality and customer satisfaction.

Questions for Consideration:

- Based on what you're offering, what is your current dollar / unit / satisfaction throughput?
- What appears to be slowing down your value delivery system?

Duplication

“The problems of this world are only truly solved in two ways: by extinction or duplication.” — Susan Sontag, author and political activist

Key Ideas:

- Duplication is the ability to reliably reproduce something of value.
- Duplication allows you to make copies of your offer quickly and inexpensively, making it more widely available in a cost-effective way.
- To create something that doesn't require your direct involvement, you need to be able to duplicate effectively.
- If you have to be personally involved with every customer, there's a limit on how many customers you can serve.

Questions for Consideration:

- Is your offer capable of duplication?
- What do you need to do in order to duplicate the value you're providing?

Multiplication

“All growth depends upon activity. There is no development physically or intellectually without effort, and effort means work.” — Calvin Coolidge, thirtieth president of the United States

Key Ideas:

- Multiplication is duplication for an entire process or system.
- There’s an upper limit on what a single business can produce. By creating identical business systems based on a proven model, a business can deliver value to more customers.
- Multiplication is what separates small businesses from huge businesses.

Questions for Consideration:

- Can your business multiply as well as duplicate?
- How could you take advantage of multiplication to serve more customers?

Scale

“Ut sementem feceris, ita metes.” (You reap what you sow.) — Marcus Tullius Cicero, ancient Roman statesman and orator

Key Ideas:

- Scale is the ability to reliably duplicate or multiply a process as volume increases.
- Scalability is limited by the amount of human involvement required in the process. The smaller the level of required human attention in the process, the more the business can produce.
- Products are easier to Duplicate, while Shared Resources are easier to Multiply.
- People don't scale. On the contrary, the bigger the demand on them, the lower the effectiveness.
- The smaller the level of human involvement, the more scalable the business.

Questions for Consideration:

- Is your business system scalable?
- What is the maximum volume your business system could currently deliver?
- How would you go about expanding the business as volume increases?

Accumulation

“Sometimes when I consider what tremendous consequences come from little things, I am tempted to think: there are no little things.” — Bruce Barton, advertising executive best known for creating the “Betty Crocker” brand

Key Ideas:

- Accumulation is about small helpful or harmful inputs and behaviors that produce huge results over time.
- Accumulation isn’t always positive.
- Incremental Augmentation and the Iteration Cycle are good examples of how much Accumulation can improve the value of your offering.
- The more small improvements you make over time, the better the results.

Questions for Consideration:

- What small improvements can you make to your offer or business system right now?
- What would happen if you made a few small improvements every single day?

Amplification

“In nature, there are neither rewards nor punishment—there are consequences.” — Robert G. Ingersoll, political leader and orator

Key Ideas:

- When you make a small change to a scalable system, the results are huge. That’s Amplification.
- The best way to identify Amplification opportunities is look for things being duplicated or multiplied.
- The larger the system, the larger the result of the small change.

Questions for Consideration:

- Does your business have amplification effects?
- If so, what small changes could you make to improve the workings of the system?

Barrier to Competition

*“Don’t compete with rivals – make them irrelevant.” — W. Chan Kim, *Blue Ocean Strategy**

Key Points:

- Don’t focus on competing, focus on delivering more value. Build a Barrier so your competition can’t keep up.
- The more time you spend looking at the competition, the less time you have to build your business.
- Every improvement you make to your Value Stream, makes it harder for your competition to follow.

Questions for Consideration:

- Are you worrying too much about what your competition is doing?
- What would happen if you stopped competing and focused that energy on delivering even more value instead?

Force Multiplier

“Man is a tool-using animal. Without tools he is nothing, with tools he is all.” —

Thomas Carlyle, essayist and historian

Key Ideas:

- Force Multipliers are tools that help you Amplify your effort to produce more output. A hammer is a force multiplier.
- Investing in Force Multipliers means that you’ll get more done with the same amount of effort.
- Generally, the only good use of debt or outside capital is when it gives you access to Force Multipliers that you wouldn’t be able to access any other way.
- force Multipliers free up your time, energy and attention to focus on building your business instead of simply operating it.

Questions for Consideration:

- Do any force multipliers exist in your market?
- Are you using the very best tools you can obtain and afford?

Systemization

“If you can’t describe what you are doing as a process, you don’t know what you’re doing.” — W. Edwards Deming, production management expert and pioneer of statistical process control

Key Ideas:

- A System is a process made explicit and repeatable.
- The primary benefit of creating a System is that you can examine the process and make improvements.
- Developing Systems help everyone do what they have to do with minimum misunderstanding. It helps with the communication in the process.
- Creating systems may feel like extra work, but they ultimately make your work easier. The better your system, the better your business.

Questions for Consideration:

- What process are you using to deliver value?
- Have you systematized that process?
- Could that process be automated?

Chapter 5: Finance

*He had heard people speak contemptuously of money: he wondered if they had ever tried to do without it. — W. Somerset Maugham, author of *Of Human Bondage**

Profit

“Remind people that profit is the difference between revenue and expense. This makes you look smart.” — **Scott Adams**, cartoonist and creator of “Dilbert”

Key Ideas:

- Profit is simply bringing in more money than you spend.
- For a business to survive, it must eventually make profit. You can't operate at loss forever.
- Profits also provide a “cushion” to the business to deal with unexpected events.
- Profits are important, but they don't have to be only goal for starting a business. Exploring interests and helping others, for example, are also valid reasons to start a business.

Questions for Consideration:

- Is your business bringing in more than it's spending?
- Is the primary purpose of your business maximizing profits, or do you have other priorities?

Profit Margin

“I never lost money by turning a profit.” — **Bernard Baruch**, financier and philanthropist

Key Ideas:

- Profit Margin (often abbreviated to “margin”) is the difference between how much revenue you capture and how much you spend to capture it, expressed in percentage terms.
- $\% \text{ Profit Margin} = ((\text{Revenue} - \text{Cost}) / \text{Revenue}) * 100$
- If you spend \$1 to get \$2, that’s a 50 percent Profit Margin.
- Profit Margin is not the same as *markup*, which represents how the price of an offer compares to total cost.
- $\% \text{ Markup} = ((\text{Price} - \text{Cost}) / \text{Cost}) * 100$
- If the cost of an offer is \$1 and you sell it for \$2, your markup is 100%, Margins can never be more than 100%, but markups can be 200%, 500%, or 10,000%.
- Businesses often use Profit Margin as a way of comparing offers.

Questions for Consideration:

- What is your offer’s profit margin?
- What is your offer’s markup?

Value Capture

"You can get anything you want in this life if you help enough other people get what they want." — Zig Ziglar, sales guru

Key Ideas:

- Value Capture is the process of retaining some percentage of the value provided in every Transaction. For example, if you bring \$1 million of revenue to a client, and you charge \$100,000, you are capturing 10% of the value you created.
- The more value you capture, the less attractive your offer becomes.
- There are two major approaches to Value Capture:
 - Maximization. An organization should try to capture as much value as possible.
 - Minimization. An organization should capture as little value as possible, as long as it remains Sufficient.
- As long as you bring enough to cover your needs, there's no need to capture every cent.
- Create as much value as you can, so your captured value is worth it.

Questions for Consideration:

- How much value are you currently capturing from each transaction?
- Are you trying to capture too little, or too much?

Sufficiency

“Know contentment and you will suffer no disgrace; know when to stop and you will meet with no danger. You can then endure.” — Lao Tzu, ancient Chinese philosopher

Key Ideas:

- Sufficiency is the point where a business is bringing enough profit that people find it worthwhile to keep going for the foreseeable future. Maximizing profits is not everything, it's more important what you do with it.
- On the other hand, you can't create value if you can't pay the bills.
- Refer to your TMR: Target Monthly Revenue. If you bring more than your TMR each month, you are sufficient.
- Sufficiency is subjective. Different businesses have different sufficiency points.
- If you reach Sufficiency, you are successful, regardless of how much money you make.

Questions for Consideration:

- What is your point of financial sufficiency? Have you reached it yet?
- How could you reduce the time it'd take to be sufficient?

Valuation

“The whole value of the dime is knowing what to do with it.” —**Ralph Waldo Emerson**

Key Ideas:

- Valuation is an estimate of the total worth of a company.
- The higher a business' revenues, the stronger the company's Profit Margins, the higher its bank balance, and the more promising its future, the higher its Valuation.
- The higher the Valuation, the easier it is to borrow money, the higher the per-share price, and the higher the price in the case of an acquisition.
- Valuation is also important if you intend to take on investors. Higher Valuations = more money per share sold to investors.
- Many companies base their financial decisions on what will increase the business' Valuation.

Questions for Consideration:

- Can you estimate your business' current valuation?
- Is current valuation important for your business, or is it a secondary concern?

Cash Flow Statement

“Lack of money is the root of all evil.” — *Mark Twain*

Key Ideas:

- The Cash Flow Statement is straightforward: it's an examination of a company's bank account over a certain period of time.
- Think of it like a checking account ledger: deposits of cash flow in, and withdrawals of cash flow out. Ideally, more money flows in than flows out, and the total never goes below zero.
- Every Cash Flow Statement covers a specific period of time: a day, a week, a month, a year. The time period of the report depends on the purpose.
- Cash tends to come from three primary sources: operations (selling offers and buying inputs), investing (collecting dividends and paying for capital expenses), and financing (borrowing money and paying it back).
- The nice thing about cash is that it doesn't lie. Barring outright fraud, cash is either in the bank account or it's not. If the company spends a lot of money, but less is coming in, the business' cash position will decrease over time. There's little room for “creative interpretation.”

Questions for Consideration:

- Do you have a current Cash Flow Statement?
- If not, can you create one?

Income Statement

“When I was young, I thought money was the most important thing in life. Now that I’m old, I know it is.” — **Oscar Wilde**

Key Ideas:

- Cash is important, but it’s not the whole picture.
- Cash is not Profit. It’s possible to have a nice, comfortable cash position for a while, but lose money with every sale.
- If the business manages an inventory or extends credit to customers, a simple cash flow analysis can be misleading. In order to determine whether or not your sales are profitable, you need to be able to track which sales and expenses are related.
- *Accrual accounting*: revenue is recognized immediately when a sale is made (i.e. a product is purchased, a service is rendered, etc.), and the expenses associated with that sale are incurred in the same time period.
- *Matching Principle*: by matching each sale with the expenses incurred in the process of making that sale, it’s possible to see if you’re making a profit.
- The matching principle, for all of its benefits, introduces many sources of potential bias in the Income Statement via assumptions and projections.

Questions for Consideration:

- Do you have a current Income Statement?
- If not, can you create one?

Balance Sheet

“If you would know the value of money, go try and borrow some.” — **Benjamin Franklin**

Key Ideas:

- A Balance Sheet is a snapshot of what a business owns and what it owes at a particular moment in time. You can think of it as an estimate of the company's net worth at the time the Balance Sheet was created.
- Balance Sheets always cite a specific day, and use this calculation:
$$\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$$
- *Assets* are things the company owns that have value: products, equipment, stock, etc.
- *Liabilities* are obligations the firm hasn't yet discharged: loans, financing.
- What's left over when you discharge all of the business' liabilities is *Owner's Equity*, the company's "net worth."
- What makes the Balance Sheet "balance" is the secondary form of the calculation, which is a rearrangement of the first equation: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
- Both sides of the Balance Sheet are the same. The Balance Sheet always balances. If it doesn't balance, you've made an error.

Questions for Consideration:

- Do you have a current Balance Sheet?
- If not, can you create one?

Financial Ratios

“In the real world, the tests are all open book, and your success is inexorably determined by the lessons you glean from the free market.” — **Jonathan Rosenberg**, former senior vice president of product management at Google

Key Ideas:

- Financial Ratios are beneficial because they allow you to make comparisons very quickly.
- *Profitability* ratios indicate a business' ability to generate Profit. (“How profitable is the company or offer?”)
- *Leverage* ratios indicate how your company uses debt. (“How much debt does the company have, and can they pay it back?”)
- *Liquidity* ratios indicate the ability of a business to pay its bills. (“How much cash does the company have, and can they pay their bills?”)
- *Efficiency* ratios indicate how well a business is managing assets and liabilities. (“How much inventory does the business have, and how long does it take to collect payments for receivables?”)
- Every business has a small number of important ratios to consider, so it's worthwhile to do a bit of research to see what they are for your industry.

Questions for Consideration:

- Which financial ratios are most important for your business?
- Which ratios are important in your industry?

Cost-Benefit Analysis

“I must study the plain physical facts of the case, ascertain what is possible, and learn what appears to be wise and right. The subject is difficult, and good men do not agree.” — **Abraham Lincoln**

Key Ideas:

- If the data you're examining doesn't lead to make changes that improve your business, you're wasting your time.
- Cost-Benefit Analysis is the process of examining potential changes to your business to see if the benefits outweigh the costs.
- When conducting a Cost-Benefit Analysis, it's important to include costs and benefits that aren't purely financial.
- Before making a decision, evaluate the total costs and benefits.

Questions for Consideration:

- Do you consistently do Cost-Benefit Analysis before making financial decisions?
- Do you consider non-financial as well as financial costs and benefits?

Four Methods to Increase Revenue

“Money is plentiful for those who understand the simple laws which govern its acquisition.” — George Clayson, author of *The Richest Man in Babylon*

Key Ideas:

- There are only four ways to increase revenue:
 - Increasing the number of customers.
 - Increasing average transaction size. Try to get each customer to purchase more.
 - Increasing the frequency of transactions per customer. Try to get each customer to purchase more often.
 - Raising your prices.
- Remember the lesson of Qualification: not every customer is a good customer.
- Always focus the majority of your efforts on serving your ideal customers. The more ideal customers you attract, the better the business.

Questions for Consideration:

- How can you use the 4 methods to increase your business' revenue?
- How can you encourage your customers to become more like your ideal customer?

Pricing Power

“The moment you make a mistake in pricing, you’re eating into your reputation or your profits.” — Katharine Paine, founder of The Delahaye Group

Key Ideas:

- Pricing Power is your ability to raise your prices over time. The less value you capture, the greater your pricing power. It’s related to the economic concept of “price elasticity”: how sensitive are your customers to price variations.
- Pricing Power is important because raising your prices allows you to overcome inflation or increased costs. without pricing power, your business may not be able to remain alive if it faces higher expenses.
- The higher the prices you can command, the more reliably you’ll be able to maintain Sufficiency.

Questions for Consideration:

- How sensitive are your customers to price increases?
- Would raising your prices make it easier for your business to stay sufficient?
- How much room do you have to raise prices without losing too many customers?

Lifetime Value

“The purpose of a customer isn’t to get a sale. The purpose of a sale is to get a customer.” — Bill Glazer, advertising expert

Key Ideas:

- Lifetime Value is the total value of a customer’s business over the lifetime of their relationship with your company.
- The more they purchase from you, and the longer they stay with you, the better the value. the higher the Lifetime Value, the more you can do to keep them happy.
- By understanding how much a customer purchases and how long they stay with you, you can place a tangible value on each new customer.
- It’s much better to operate on markets with high Lifetime Value.

Questions for Consideration:

- What is the average lifetime value of a new customer for your business? Is it high or low?
- What could you do to increase the lifetime value?

Allowable Acquisition Cost (AAC)

“Any business can buy incremental unit sales at a negative profit margin, but it’s simpler to stand on the corner handing out \$20 bills until you go broke.” — Morris Rosenthal, author of *Print-on-Demand Book Publishing* and blogger at fonerbooks.com

Key Ideas:

- Allowable Acquisition Cost (AAC) is the marketing component of the Lifetime Value. The higher the Lifetime Value of your customers, the more you can spend to attract new customers.
- To calculate your AAC follow these steps:
 - Start with your average customer’s Lifetime Value.
 - Subtract your Value Stream costs.
 - Finally, subtract your Overhead divided by your customer base (which represents your Fixed Costs).
- The higher the Lifetime Value, the higher the AAC. The more each new customer is worth, the more you can spend to attract them and keep them happy.

Questions for Consideration:

- How much can you reasonably spend to attract a new customer?
- Could you use a ‘loss leader’ to establish a new relationship with a high lifetime value customer?

Overhead

“Beware of little expenses; a small leak will sink a great ship.”— Benjamin Franklin, early American political leader, scientist, and polymath

Key Ideas:

- Overhead is the minimum ongoing resources required for your business to continue operations.
- The lower your Overhead, the less revenue you need to keep going.
- Overhead is critically important if you’re building your company on a fixed amount of capital. The faster you spend it, the more quickly you’ll need to bring revenue.
- A lower Overhead means more flexibility.

Questions for Consideration:

- How much are you spending each month, even if you don’t sell anything?
- How can you minimize your business’ expenses without decreasing critical capabilities?

“Costs: Fixed and Variable”

“Watch the costs and the profits will take care of themselves.”— Andrew Carnegie, nineteenth-century industrialist

Key Ideas:

- Fixed Costs exist no matter how much value you create. Your Overhead is a Fixed Cost.
- Variable Costs are directly related to how much value you create. More value, more costs.
- Reduction in Fixed Costs help Accumulate.
- Reduction in Variable Costs are Amplified by volume.
- The more you understand your costs, the more ways to to produce value without spending everything you'll find.

Questions for Consideration:

- Which costs of operating your business are fixed? Which are variable?
- Is there any way you can reduce your costs without reducing the amount of value you provide?

Incremental Degradation

“Quality, quality, quality: never waver from it, even when you don’t see how you can afford to keep it up. When you compromise, you become a commodity and then you die.” — Gary Hirshberg, founder of Stonyfield Farm

Key Ideas:

- Saving money doesn’t help if you need to lower the quality of your offering to do it.
- Cost saving measures Accumulate over time, and end up having an impact on quality. Cutting costs can help to increase the Profit Margin, but it usually comes at a steep price.
- Cutting costs can only take you so far. Creating value will always cost some amount of money, so there’s a limit to this strategy.
- Creating and delivering value is a much better way to improve your business. There’s no limit to how much value you can provide.
- Control your costs, but remember why your customers are buying from you.

Questions for Consideration:

- Are you trying to cost-save your way to profitability?
- Are the small changes you’re making degrading the value you’re providing?
- If you have to reduce costs, can you do so in a way that minimizes the impact to your offer’s quality?

Breakeven

“It is unusual, and indeed abnormal, for a concern to make money during the first several years of its existence. The initial product and initial organization are never right.” — Harvey S. Firestone, founder of the Firestone Tire and Rubber Company

Key Ideas:

- Breakeven is the point where your business' total revenue exceeds its total expenses. It's the point where it starts creating wealth.
- The initial revenue is not wealth, you need to cover your initial investment.
- Your breakeven point will change constantly, revenue and expenses fluctuate with time.
- The more revenue you bring and the less you spend, the more quickly you'll reach Breakeven.

Questions for Consideration:

- What is your breakeven point? Have you calculated it?
- Are you moving closer to breakeven, or sinking deeper into debt?

Amortization

“Before every action, ask yourself: will this bring more monkeys on my back? Will the result of my action be a blessing or a heavy burden?” — Alfred A. Montapert, author of *The Supreme Philosophy of Man: The Laws of Life*

Key Ideas:

- Amortization is the process of spreading the cost of a resource investment over its estimated useful life.
- Amortization can help you realize if a certain investment is worth it.
- Amortization is a prediction, it depends on an accurate assessment of useful life, and it doesn't work well if you sell less than you thought you would, or if the equipment wears out faster than you thought. If you're wrong in your assessment, your investment may cost more than expected.
- Using Amortization is smart, but remember it's a prediction, so act accordingly.

Questions for Consideration:

- Does your business require expensive investments?
- By making this investment, can you do things you otherwise couldn't?
- Assuming your estimates are accurate, what's the per-unit amortized cost of the investment?

Purchasing Power

“The job of the entrepreneur is to make sure the company doesn’t run out of cash.” — Bill Sahlman, professor at Harvard Business School

Key Ideas:

- Purchasing Power is the sum total of all liquid assets a business has at its disposal. The more the better, as long as you use that power wisely.
- Purchasing Power is what you use to pay your Overhead and supplies. If you run out of Purchasing Power, you’re out of business.
- Keeping a track of your Purchasing Power makes running a business easier and less stressful. Having Purchasing Power means that you’re not gonna disappear yet!

Questions for Consideration:

- How much purchasing power do you have at your disposal?
- Have you utilized it all, or do you have reserves to draw upon if needed?
- How could you increase your total available purchasing power?

Cash Flow Cycle

What is the “Cash Flow Cycle”?

“All truth is found in the cash account.” — Charlie Bahr, management consultant

Key Ideas:

- The Cash Flow Cycle describes how the cash Flows in and out of business.
- Receivables are promises of payment you’ve received from others. They feel like sales, but with a catch: the promise has to be fulfilled for the Receivable to translate into cash.
- Debt is a promise you make to pay someone at a later date. They are helpful because the later you pay, the more cash you have at your disposal at the present. The catch is that it usually costs additional money in form of interests.
- To bring in more cash it’s better to speed up collections and reduce the extension of credits. And always remember that you don’t have to extend credits if it doesn’t make sense for your business.
- Maximizing your cash tackles the issue directly: bring in more revenue and cut costs.

Questions for Consideration:

- Is it possible to strengthen your cash flow by collecting receivables earlier, paying creditors later, or reducing your overhead?
- Can you increase your available purchasing power by opening a line of credit or other expandable option for use if unanticipated events occur?

Opportunity Cost

“Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight.” — Henry R. Luce, publisher and founder of Time Inc.

Key Ideas:

- Opportunity Cost is the value you’re giving up for making a Choice.
- Whenever you invest time, energy or resources in something, you are also choosing not to invest it in something else.
- Opportunity Cost is important because it’s hidden. Paying attention to what you’re giving up helps you evaluate your decision.
- Don’t obsess over your Opportunity Cost. Don’t try to analyze everything, just consider what appear to be the best alternatives at the time.

Questions for Consideration:

- Examine your current investments of resources, time, and energy – are there opportunity costs you haven’t considered?
- What are some potential options that may be better investments?

Time Value of Money

“They always say time changes things, but you actually have to change them yourself.” — Andy Warhol, artist

Key Ideas:

- A dollar today is worth more than a dollar tomorrow. Calculating the Time Value of Money is a way of making choices when dealing with Opportunity Costs.
- The more profitable options you have to invest that dollar, the more valuable it is.
- Time Value of Money can help you determine which options to choose and how much you should spend, given the alternatives.

Questions for Consideration:

- How can you use the Time Value of Money to make decisions about where to invest your resources?
- How can you take advantage of the Time Value of Money to make wise investments?

Compounding

*“Improve by 1% a day, and in just 70 days, you’re twice as good.” — Alan Weiss, management consultant and author of *Getting Started in Consulting* and *Million Dollar Consulting**

Key Ideas:

- Compounding is the Accumulation of gains over time.
- Compounding is important because it creates the possibility of huge gains in a short period of time. By reinvesting the revenue your business generates over and over, you can multiply your original investment many times.
- Accumulating gains will produce huge results. The trick is to be patient.

Questions for Consideration:

- Are you reinvesting your returns?
- How quickly is your investment growing?
- How can you take advantage of the magic of compounding?

Leverage

“We’ve been criticized for not understanding what the word leverage means... We do know what leverage means, and having a few million dollars cash in the bank is much nicer than being heavily leveraged.” — Kenneth H. Olsen, founder of the Digital Equipment Corporation (DEC), which was acquired by Compaq in 1998

Key Ideas:

- Leverage is the practice of using borrowed money to magnify potential gains.
- Leverage is a form of financial Amplification. It magnifies gains and losses.
- Using Leverage is dangerous. Never do it unless you are aware of the financial risks for yourself and your business.

Questions for Consideration:

- Does leverage make sense for your particular business idea?
- What opportunities and risks does leverage present, given your current situation and goals?

Hierarchy of Funding

What is the “Hierarchy of Funding”?

“Money often costs too much.” — Ralph Waldo Emerson, essayist and poet

Key Ideas:

- If your business needs to buy equipment or to hire employees, chances are you require Funding.
- In order to acquire Funding, it's often necessary to give up a certain amount of control over the operations. No one gives money away for nothing. The more money you ask for, the more control they'll want.
- The Hierarchy of Funding describes the different funding methods. The higher you climb, the more funding you get and the more control you give up:
 - Personal Cash. The best form of financing is to invest your own money.
 - Personal Credit. Easy and quick if your needs don't exceed a few thousand dollars.
 - Personal Loan. Typically made by friends/family. Be careful because failure to pay back may harm your personal relationships.
 - Unsecured Loan. Typically made by banks or credit unions. It's used for small amounts, usually doesn't require collateral so the interest will be higher.
 - Secured Loan. It requires collateral. If you don't make the payments, the lender can seize the property signed as collateral.
 - Bond. Debt sold to individual lenders. Instead of asking a bank, a business asks other individuals directly.
 - Receivable Financing. Special type of secured lending unique for business. The collateral is the business receivables. The bank can force the business to pay the loan before anything else, even salaries.
 - Angel Capital. The “angel” investor gives you Capital in exchange for partial legal ownership of the business. Some angels offer advice, but they usually can't make business decisions.
 - Venture Capital. VCs are very wealthy and they offer very large amounts of capital. It happens in “rounds” and there's a lot of negotiation involved. VCs require a lot of control, usually a seat in the company's board of directors.

- Public Stock Offering. It involves selling partial ownership of the company to investors on the open market. Whoever owns the most shares of the company controls it, so “going public” is very risky in terms of control. Public Stock Offerings are usually used by angel investors and VCs to exchange ownership for money.
- The more control you have to give up, the less attractive the funding. More opinions means slower operations.
- It’s not uncommon for investors to remove executives that are not performing well, even if they are the founders (e.g.: Steve Jobs).

Questions for Consideration:

- If financing would be useful, how much control over your business would you have to give up to obtain the funding?
- Are you financing force multipliers that can only be paid for via financing, or are you spending borrowed funds on things that are better paid for with cash?

Bootstrapping

“Felix qui nihil debet.” (Happy is he who owes nothing.) — Roman Proverb

Key Ideas:

- Bootstrapping is the art of building and operating a business without funding.
- Bootstrapping allows you to grow your business while controlling it 100%.
- If you accept Funding, make sure that you use it to do things that you couldn't otherwise.
- Bootstrap as far as you can go, then move up the Hierarchy of Funding as needed.

Questions for Consideration:

- Could you bootstrap your business idea?
- If not, how much funding do you need, and how can you raise that money will minimizing the control you give up?

Return on Investment (ROI)

“Wise are those who learn that the bottom line doesn’t always have to be the top priority.” — William A. Ward, aphorist

Key Ideas:

- Return on Investment (ROI) is the value created from an investment of time or resources.
- ROI can help you make decisions between competing alternatives by asking yourself the question: what brings a bigger ROI?
- The return on every investment is always directly related to how much the investment costs. The more you spend, the lower your return.
- Every future ROI is a semieducated guess. Nothing is a sure bet, you can only know your exact ROI after your investment is made.

Questions for Consideration:

- How can you calculate the return you’re currently getting on each of your investments?
- How can you improve that return?

Sunk Cost

“If at first you don’t succeed, try, try again. Then quit. There’s no point in being a damn fool about it.” — W. C. Fields, comedian

Key Ideas:

- Sunk Costs are investments of time, energy and resources that can’t be recovered once they’re made. Continuing to invest there is a waste.
- The concept of Sunk Costs is very hard to put into practice. People have hard time walking away something that they’ve invested a lot in. In reality, there’s nothing you can do.
- Making mistakes is inevitable. What’s important is to learn from those mistakes. Sometimes quitting, changing directions, is the smart move.

Questions for Consideration:

- Are you throwing good money after bad?
- Is the additional investment worth the reward, or are you trying to salvage an investment gone wrong?

Internal Controls

“If something cannot go on forever, it will stop.” — **Herbert Stein**, economist

Key Ideas:

- Internal Controls are a set of specific Standard Operating Procedures a business uses to collect accurate data, keep the business running smoothly, and to spot trouble.
- The better a company's internal controls, the more reliable its financial reports, and the more confidence you can have in the quality of the company's operations.
- *Budgeting* is the act of estimating future costs and taking steps to ensure that these estimates aren't exceeded without good reason.
- *Supervision* is important in businesses that rely on employees or outside firms for important parts of its business process.
- *Compliance* is necessary when a business operates in an industry affected by government regulations.
- *Theft and Fraud Prevention* is important to protect against the risk of financial loss by an unscrupulous party.
- In all of these areas, it's useful to have a dispassionate third-party *audit* your data and control processes.

Questions for Consideration:

- Does your business have Internal Controls in place in these four areas?
- Do your controls need to be audited?

Chapter 6: The Human Mind

Ninety percent of this game is half mental. — **Yogi Berra**, former professional baseball player and malapropist

Caveman Syndrome

“Every man is a quotation from all his ancestors.” — Ralph Waldo Emerson

Key Ideas:

- Human biology is optimized for the world that existed 100,000 years ago, not for the world today. Your brain and body simply aren't optimized for today's world.
- Part of the challenge is facing 16 hours work days, instead of the physical survival of the past.
- Don't be too hard on yourself. Nobody was built for the world as it is today.

Questions for Consideration:

- Do you often feel bad about not being able to keep up with the demands of modern life?
- How does knowing we're not built for what we're doing change the way you perceive your shortcomings?

Performance Requirements

“Now no joy but lacks salt, / That is not dashed with pain / And weariness and fault...” — Robert Frost, poet

Key Ideas:

- If you don't give your body what it needs to run, you'll stop functioning before you reach your goals.
- You need nutrition, rest and exercise to be productive. Here are some tips:
 - Eat high-quality food.
 - Exercise regularly.
 - Get at least seven to eight hours of sleep each night.
 - Get enough sun, but not too much.
 - Feed your brain the raw materials it needs to run. You may need to get some of these in supplement forms.
- It's a good idea to Experiment to see what works for you to improve your energy, productivity and mood.

Questions for Consideration:

- How are you treating your body? Are all of your physical needs being met?
- What can you do to make taking care of yourself a bigger priority?

Onion Brain

What is the “Onion Brain”?

“The views expressed here do not necessarily represent the unanimous view of all parts of my mind.” — Malcolm McMahon, bishop of Nottingham

Key Ideas:

- To understand human behavior, it's important to understand the brain. Think of the Brain as an Onion:
 - At the core is the hindbrain. It's essentially responsible for keeping you alive, sending all the necessary signals for you to do what you need to survive.
 - Above the hindbrain is the midbrain, responsible for processing sensory data, emotion, memory and Pattern Matching. The midbrain is constantly predicting what will happen next.
 - Above the midbrain is the forebrain., responsible for self-awareness, logic, etc. Basically everything that makes us distinctly human.
- One of the best things you can do to get more done is to dissociate yourself from the voice in your head. The voice isn't always right, it just likes to highlight things around you.
- Meditation is a simple practice that can help you separate “you” from the voice in your head. Nothing mystical, just breathe and watch what your mind does. It will eventually get quieter.

Questions for Consideration:

- What is the radio announcer in your head saying?
- What happens when you take time to quiet your mind and simply watch what happens?

Perceptual Control

“The behavior of an organism is the output of control systems, and is performed with the purpose of controlling perceptions at desired reference values. Behavior is the control of perception.” — William T. Powers, control systems theorist and author of *Making Sense of Behavior: The Meaning of Control*

Key Ideas:

- Perceptual Control means that once a certain action brings the perception under control, the system stops acting until a set point is violated again.
- We act in ways to keep our perception of the world within acceptable boundaries. We wear a coat not because of the weather, but because we feel cold and don't want to feel cold.
- The Environment dictates which actions are possible to bring the perception under control. Control is not about planning, it's about adjusting to environmental changes as they happen.
- By understanding that people act to control their perceptions, you'll be better equipped to influence them.

Questions for Consideration:

- Are you treating people as control systems, or stimulus-response machines?
- How can you discover what people are controlling for, then help them get it?

Reference Level

“Action comes about if and only if we find a discrepancy between what we are experiencing and what we want to experience.” — Philip J. Runkel, professor of psychology and education, University of Oregon

Key Ideas:

- The key element of every Perceptual Control is its Reference Level: a range of perceptions that indicate the system is “under control.”
- There are three kinds of Reference Levels:
 - Set point. A minimum or maximum level. Business finances are handled this way: as long as your revenue and expenses are over and below the respective limits, you’re ok.
 - Range. A spread of acceptable values. The difference with a set point is that there’s an upper *and* a lower limit, and the perception must be in between those limits to be under control.
 - Error. Set point defined as zero: anything that’s not zero is out of control. The pain receptors in your skin, or customer service complaints are good examples of this.
- To change behavior, you must either change the Reference Levels or the Environment. You are now able to act differently and still be under control, even if the perceptions are the same. Think of a big marketing campaign: you know a big expense is coming, but you’ve changed the Reference Level.
- Change the Reference Level and your behavior will change completely.

Questions for Consideration:

- What constitutes the ‘normal’ operating reference levels for this particular system, and how do you know when things aren’t normal?
- Is it a range of values, a setpoint, or an error?

Conservation of Energy

“Whenever an individual or a business decides that success has been attained, progress stops.” — Thomas J. Watson, former president of IBM

Key Ideas:

- Conservation of Energy means that we’ve evolved to avoid expending energy unless it’s necessary.
- Unless a Reference Level is violated, people will generally Conserve Energy by not acting.
- Sources of information that change your Reference Levels are valuable in prompting action. By learning of other choices that you can make, you may acquire different Reference Levels.
- All you need to know is that something that you want is possible, and you’ll find a way to get it.

Questions for Consideration:

- Are you being lazy, or is it an energy conservation issue?
- Could you intentionally knock a reference level out of control to prompt action in a certain area?

Guiding Structure

“Your environment will eat your goals and plans for breakfast.”— Steve Pavlina, author of *Personal Development for Smart People* and blogger at stevepavlina.com

Key Ideas:

- Guiding Structure means the structure of your Environment is the largest determinant of your behavior.
- If you want to successfully change a behavior, change the structure that influences or supports the behavior first, and the behavior will follow.
- Don't try to change your behavior directly, that requires a lot more willpower. It's easier to focus on the Environment.

Questions for Consideration:

- How is your current environment affecting your behavior?
- How can you change the structure of your environment to make it easier to get things done

Reorganization

*“Not all those who wander are lost.” — J. R. R. Tolkien, author of *The Lord of the Rings**

Key Ideas:

- Reorganization is a random action that occurs when a Reference Level is violated, but you don't know how to bring back under control. This is what happens when people feel “unhappy with their jobs”, or have the “quarter-life crisis.” There's something wrong, but it's hard to know what.
- Reorganization is the neurological basis of learning. If your mind doesn't know what to do, the best thing is to do random things to acquire data.
- It's best no to fight Reorganization. It usually just slows down your learning without improving your satisfaction.
- Once you learn how to bring the perception under control, Reorganization stops naturally.
- Embrace the mind's request to try something new.

Questions for Consideration:

- Do you feel like something is wrong, but you don't know why, or how to fix it?
- How can you embrace reorganization as a quest to learn instead of repressing the impulse?

Conflict

“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.” — Albert Einstein, renowned physicist

Key Ideas:

- Conflict occurs when two control systems try to change the same perception. This is what happens in the typical case of procrastination: one system wants to rest, and one wants to work.
- Conflict also occurs when people are controlling for different outputs that require the same input.
- Conflicts can only be solved by changing Reference Levels: how success is defined by the parties involved.
- Change the structure of the situation that creates the reference levels each party is using to define success, and you'll eliminate the conflict.

Questions for Consideration:

- Where are conflicts occurring?
- What control systems are involved, and what are their current reference levels?
- How can you change the situation to change those reference levels?

Pattern Matching

“Your memory is a monster; you forget — it doesn’t. It simply files things away. It keeps things for you, or hides things from you—and summons them to your recall with a will of its own. You think you have a memory; but it has you!” — John Irving, novelist and Academy Award–winning screenwriter

Key Ideas:

- Our brains are Pattern Matching machines, constantly trying to find patterns and associating them with previous patterns.
- This happens unconsciously, your brain does it simply by paying attention to the world.
- Humans learn patterns primarily via Experimentation.
- Patterns get stored in our memory, waiting to be recalled. This process is optimized for speed to help you remember things quickly, not accurately.
- The more accurate patterns you’ve learned, the more options you have when solving a problem.

Questions for Consideration:

- How many patterns have you learned about how the world works?
- What could you do to expose yourself to new patterns and information on a daily basis?

Mental Simulation

“I saw the angel in the marble and carved until I set him free.”— Michelangelo, sculptor and artist

Key Ideas:

- Mental Simulation is our mind’s ability to imagine taking a specific action and simulating the probable result before acting.
- Anticipating the results of our actions improves our ability to solve new problems.
- Mental Simulation relies on our memory, learned via perception and experience.
- Without supplying a goal, a destination, mental simulation can’t exist.
- Mental Simulation is extremely powerful if you learn how to harness it consciously.

Questions for Consideration:

- How often do you use your imagination to imagine the results or consequences of specific actions or goals?
- How could you set aside more time for productive mental simulation?

Interpretation and Reinterpretation

"We don't see things as they are. We see things as we are." — Anaïs Nin, author and diarist

Key Ideas:

- When there's not enough information to develop an accurate Pattern, the human brain relies on prior information and patterns to make Interpretations and fill the gaps.
- These snap Interpretations can be altered via Reinterpretations.
- You can change your beliefs and mental simulation consciously by recalling and reinterpreting past events.
- Reinterpretation is possible because our memory is impermanent. Every time we recall something, the new memory will include any changes we've made to it.
- Reinterpret your past and you'll improve your ability to make great things happen.

Questions for Consideration:

- Do you have any old beliefs or patterns that make you afraid or hesitant to try new things?
- Are there other ways to interpret past memories that are associated with those beliefs that may serve you better?

Motivation

“BUT I DON’T WANNA!!!” — Two-year-old children everywhere

Key Ideas:

- Motivation is an emotional state that links the parts of our brain that feel with the parts that are responsible for action.
- There are two basic desires that spark Motivation: moving towards something desirable, and moving away from something not desirable.
- Motivation is an emotion, not a logical activity. Just because your brain thinks you should be motivated, that doesn’t mean you’ll become motivated automatically.
- Conflicts result when there are “move towards” and “move away” signals at the same time. This defense mechanism was developed to avoid risks in the past, but present risks rarely are life or death situations like they used to.
- As long as there are also “move away” signals that create a Conflict, it’s hard to feel motivated to do something. Eliminate the inner conflicts that make you move away from potential threats, and you’ll find your motivation.

Questions for Consideration:

- What do you feel drawn toward, and what do you feel the need to move away from?
- How can you resolve conflicts to eliminate the need to move away from things, so you can focus on moving toward what you want?

Inhibition

*Inhibition is the ability to stop: to delay our response until we are adequately prepared to make it. — Michael Gelb, author of *Body Learning: An Introduction to the Alexander Technique* and *How to Think Like Leonardo Da Vinci**

Key Ideas:

- Inhibition is the ability to temporarily override our natural inclinations.
- Willpower is the fuel of Inhibition. Whenever we inhibit our natural responses to our environment, willpower is at work.
- Inhibiting certain decisions or responses can be beneficial, but our ability to inhibit has limitations (see Willpower Depletion).

Questions for Consideration:

- How often do you rely on your ability to inhibit your natural responses?
- Do you try to inhibit too much, or too often?

Willpower Depletion

“If you don’t want to slip, don’t go where it’s slippery.” — Alcoholics Anonymous
maxim

Key Ideas:

- Willpower is a way to interrupt our automatic processing in order to do something else.
- Our reserves of willpower are very limited, and become Depleted with use. Willpower is dependent blood glucose, and acts of willpower use up large amounts of glucose.
- The best way to use your limited resources of willpower is to use Guiding Structure to change your environment instead of your behavior.
- Focus on using your willpower to change your environment, and you’ll have more available when Inhibition is necessary.

Questions for Consideration:

- Are you relying on willpower to accomplish your goals?
- How can you alter your environment to require less willpower to accomplish what you set out to achieve?

Loss Aversion

“Our doubts are traitors, and make us lose the good we oft might win, by fearing to attempt.” — William Shakespeare, Measure for Measure

Key Ideas:

- Loss Aversion means that people hate to lose things more than they like to gain them.
- Loss Aversion explains why threats usually take over opportunities when it comes to Motivation.
- Loss Aversion also explains why uncertainty appears risky. For example, starting a business involves the potential loss of a steady and predictable income, which stops people from getting started in the first place.
- The best way to overcome loss aversion is to Reinterpret the risk of loss as “no big deal.”
- This is why Risk Reversal is so important when presenting an offer: people hate to lose. Eliminate this perception of risk by offering guarantees, and you’ll increase your sales.

Questions for Consideration:

- Is Loss Aversion holding you back from making a decision that appears to include the potential of loss?
- Would that loss be devastating, or could you handle it?

Threat Lockdown

“How little can be done under the spirit of fear.” — Florence Nightingale, pioneer of professional nursing

Key Ideas:

- When your mind perceives a potential threat your body immediately prepares to respond. Your body will come out of protective mode only once you're sure there's no longer a threat.
- The subconscious choice to fight, flee or freeze depends on your brain's Mental Simulation of the situation. Freezing makes your brain go into Threat Lockdown, hoping the threat will pass you by, and making it difficult to fixate on anything other than the threat.
- Threat Lockdown is a response designed to help you defend yourself, but it often malfunctions in today's environment. Today's threats are chronic, but less acute than in the past.
- If you're experiencing Threat Lockdown, don't try to repress it: it won't go away, it'll only make the threat signals stronger.
- The key to dealing with it is to convince your mind that the threat no longer exists, either by convincing your mind that there never was a threat, or by convincing it that the threat has passed.

Questions for Consideration:

- Are you experiencing threat lockdown right now?
- How quickly do you notice when you're experiencing lockdown?
- What strategies do you use to come out of threat lockdown quickly?

Cognitive Scope Limitation

“One death is a tragedy. A million deaths is a statistic.” — Kurt Tucholsky,
German satirist

Key Ideas:

- The Cognitive Scope Limitation is the way we simplify the reality when it becomes too overwhelming for the mind. This is what happens when you walk on Times Square: you can't possibly feel emotionally connected to so many strangers.
- It's not possible to expand the scope of information in our minds, we just can't handle so much reality.
- Personalizing an issue is the best way to overcome this limitation. It helps to personalize decisions by imagining they affect someone close to us.

Questions for Consideration:

- How can you personalize the results of actions or decisions that affect people outside of your immediate circle of peers?
- How can you remember to use the 'newspaper rule' and 'grandchild rule' before making major decisions that affect others?

Association

“In general, we are least aware of what our minds do best.” — Marvin Minsky, cognitive scientist and artificial intelligence researcher at MIT

Key Ideas:

- The human mind stores information contextually. Because the brain looks for patterns, your mind effortlessly forms Associations, even between things that aren't logically connected.
- Presenting positive associations in your offer can influence what people think about it.
- Cultivate the right associations and your customers will want what you have even more.

Questions for Consideration:

- What do your customers currently associate your offer with?
- Could you cultivate associations you'd like your prospective customers to have regarding your offers?

Absence Blindness

“Facts do not cease to exist because they are ignored.” — Aldous Huxley, essayist and author of Brave New World

Key Ideas:

- Absence Blindness is a cognitive bias that prevents us from identifying what we can't see.
- Absence Blindness makes prevention underappreciated.
- Absence Blindness also makes doing nothing when something bad happens feel “wrong”, even if it's the best choice.
- Experience helps to avoid Absence Blindness. By having a larger database of Patterns, there's a higher chance of noticing the absence.
- The best way to avoid Absence Blindness is to Checklist. Think about what you want something to look like, and translate it into reminders to refer to when you may feel you should “do something.”

Questions for Consideration:

- How can you use your team's expertise to identify absence?
- What could you be overlooking, and how can you increase the probability you'll be able to find it?

Contrast

“The world is full of obvious things which nobody by any chance ever observes.” — Sir Arthur Conan Doyle, author of the Sherlock Holmes books

Key Ideas:

- We are trained to notice Contrast, not to compare what we perceive with things that aren't there (the root of Absence Blindness). We believe something is cheap when we compare it to something more expensive, but not necessarily if it stands on its own.
- Contrast is often used to influence buying decisions. In businesses, it's often used as pricing camouflage.
- Take advantage of Contrast when presenting your offer and you'll improve the way your customers view your offer.

Questions for Consideration:

- What are your prospects currently contrasting your offer against?
- Can you offer an alternate contrast that frames your offer more attractively?

Scarcity

“The way to love anything is to realize it might be lost.” — G. K. Chesterton,
English writer and Christian apologist

Key Ideas:

- Scarcity encourages people to act quickly. If people think they may lose the chance to acquire what you offer, they may take the risk. Loss Aversion ensures that the possibility of losing feels bad enough to prompt them to act now.
- Scarcity makes waiting feel like a loss.
- Here are a few ways to create Scarcity:
 - Limited Quantities
 - Price Increases in the near future
 - Price Decreases that will end in the near future
 - Deadlines
- Add an element of Scarcity to your offer, and you'll encourage people to buy now instead of later.

Questions for Consideration:

- Does your offer have an element of scarcity?
- If not, what limited time or quantity option could you add to your offer to make it more appealing?

Novelty

“Why is it that when I ask for a pair of hands, a brain comes attached?” — Henry Ford

Key Ideas:

- Novelty is the presence of new sensory data.
- Novelty is critical if you want to attract and maintain attention over a long period of time.
- Even the most Remarkable object gets boring over time. Human attention needs novelty to sustain itself.
- Continue offering something new, and people will keep paying attention.

Questions for Consideration:

- Are you offering something new on a regular basis to maintain attention?
- What can you do to keep people from getting bored with what you offer?

Chapter 7: Working With Yourself

To think is easy. To act is difficult. To act as one thinks is the most difficult. —
Johann Wolfgang von Goethe, poet, dramatist, and polymath

Akasia

“Some of the greatest battles will be fought within the silent chambers of your own soul.” — **Ezra Taft Benson**, former US Secretary of Agriculture

Key Ideas:

- Akasia (pronounced “ah-KRAH-see-ah”) is the experience of realizing an action would be in your best interest... but you don’t do it.
- There are seven primary causes of akasia:
 1. 1. You can’t define what you want.
 2. 2. You feel the task will bring you closer to something you don’t want.
 3. 3. You can’t figure out how you’re going to get from where you are right now to where you want to be.
 4. 4. You idealize the desired End Result to the point your mind estimates a low probability of achievement, resulting in Loss Aversion.
 5. 5. The “should” was established by someone else, not you, prompting Persuasion Resistance.
 6. 6. A competing action in the current Environment promises immediate gratification, while the reward of the task in question will come much later.
 7. 7. The benefits of the action are abstract and distant, while other possible actions will provide concrete and immediate benefits.
- Akasia is one of the primary barriers to getting things done, and it’s tricky to resolve.

Questions for Consideration:

- When do you tend to experience Akasia?
- What do you do when you notice an akratic situation?

Monoidealism

“Just do it.” — Nike brand slogan

Key Ideas:

- Monoidealism is the state of focusing your energy and attention only on one thing. It's often called a “flow” state: clear, focused attention on one subject for a long period of time.
- How do you get to Monoidealism?
 - Eliminate potential distractions and interruptions.
 - Eliminate inner conflicts.
 - Kick-start the attention process by doing a “dash” of productive work to get into the flow quickly. You can stop after that dash, but chances are you'll keep going.
- If you eliminate distractions and conflicts before you start your dash, you'll quickly transition into a Monideal state.

Questions for Consideration:

- How often do you find yourself working in a monoideal state?
- Using the techniques above, can you restructure your work to make it easier to ‘just do it’?

Cognitive Switching Penalty

What is the “Cognitive Switching Penalty”?

“Rule your mind or it will rule you.” — Horace, first-century B.C. Roman poet

Key Ideas:

- Neurologically, multitasking is impossible. You are not really doing two things, you’re switching your attention from one thing to the other. Productive multitasking is a myth.
- Every time you switch your attention from one subject to another, you incur the Cognitive Switching Penalty. Your brain spends time and energy thrashing, loading and reloading contexts.
- To avoid unproductive switching, it’s best to group similar tasks together. That way your brain needs to load the context into working memory only once. You’ll get more done with less effort.

Questions for Consideration:

- How often do you try to multitask?
- Can you rearrange your schedule to batch similar tasks together?

Four Methods of Completion

“I am only one, but I am one. I cannot do everything, but I can do something. And because I cannot do everything, I will not refuse to do the something I can do. What I can do, I should do. And what I should do, by the grace of God, I will do.” — Edward Everett Hale, nineteenth-century Unitarian clergyman and writer

Key Ideas:

- There are only four ways to “do” something: Completion, Deletion, Delegation and Deferment. Use all four options when going through your to-do list and you’ll get more done.
- Completion: Doing the task. It’s best for tasks that only you can do particularly well.
- Deletion: Eliminating the task. It’s effective for anything that’s unimportant or unnecessary.
- Delegation: Assigning the task to someone else. It’s effective for anything that other person can do 80% as well as you.
- Deferment: Putting the task off until later. It’s effective for tasks that aren’t critical or time-dependent.

Questions for Consideration:

- Make a list of all of the things on your mind – which of these things can be deleted, delegated, or deferred to a later date?
- How many of these tasks can you move off your plate immediately?

Most Important Tasks (MITs)

"You've got to think about the big things while you're doing small things, so that all the small things go in the right direction." — Alvin Toffler, technology researcher and futurist

Key Ideas:

- A Most Important Task (MIT) is a critical task that will create the most important results for your goals.
- Not everything is equally important. Take some time to identify which tasks are critical at the moment.
- Every day, create a list of two or three MITs, and focus on getting them done as soon as possible. Keep this list separate from your general to-do list.
- Having a short list of MITs helps you maintain a Monoideal state by letting you say no to interruptions that aren't important. By definition, everything that's not an MIT is not critically important.
- By achieving your MITs quickly, you'll have the rest of the day to handle anything else that comes up.

Questions for Consideration:

- What are your most important tasks of the day?
- How can you structure your day to ensure your MITs get done first, before anything else?

Goals

“Setting a vague goal is like walking into a restaurant and saying, “I’m hungry. I want some food.” You’ll stay hungry until you order something.” — Steve Pavlina, author of *Personal Development for Smart People* and blogger at stevepavlina.com

Key Ideas:

- A Goal is a statement that describes precisely what you want to achieve.
- Goals are more useful if they are Framed in a Positive, Immediate, Concrete and Specific (PICS) format:
 - Positive: your goal should be something you move toward, not away from.
 - Immediate: your goals should be something that you decide to make progress on now, not “someday.”
 - Concrete: it means that you’re able to see results in the real world. Achieve “happiness” is not a concrete goal.
 - Specific: you have to define what, when and where you are going to achieve your goal.
- Your goals should be under your control, like “doing exercise” instead of “losing 20 pounds.”
- It’s ok to change your goals if you no longer feel good about them.

Questions for Consideration:

- What’s your desired end state? Have you defined a destination that your brain can use to plan what to do next?
- If you haven’t, can you set an arbitrary end state for now, leaving yourself open to course-correction as you progress?

States of Being

"I may not have gone where I intended to go, but I think I have ended up where I intended to be." — Douglas Adams, humorist and author of the *Hitchhiker's Guide* series

Key Ideas:

- A State of Being is a quality of your present experience.
- States of Being are decision, not Goals. "Being happy" is not an achievement, is a state.
- Breaking down States of Being into smaller parts helps decide what some imprecise states actually mean to you.
- Decide what States of Being you want to experience, and you'll have a powerful decision criteria that you can use to evaluate your actions.

Questions for Consideration:

- What are 3-5 states of being you'd like to experience on a daily basis?
- Are your current actions resulting in those states of being most of the time?
- If not, what are factors in your life that are leading away from them, and how could you potentially change them?

Habits

"We are what we repeatedly do. Excellence, then, is not an act, but a habit." — Will Durant, historian, paraphrasing Aristotle, ancient Greek philosopher

Key Ideas:

- Habits are regular actions that support us.
- Due to the power of Accumulation, habits can add up to huge results over time.
- Habits require Willpower to create. It's better to use Guiding Structure to help install the habits you want to adopt.
- Habits are easier to install if you use triggers. For example, make a note to take your vitamins every time you wash your teeth.
- Focus on installing one habit at a time until it feels automatic and you can move to the next one. Remember that your Willpower is limited.

Questions for Consideration:

- What productive habits have you already installed?
- What habits, if you installed them, would produce positive results in your life?
- Are there any triggers or structural changes you could use to make installing the habit easier?

Priming

“Seek, and ye shall find.” — Matthew 7:7

Key Ideas:

- Priming is a method of consciously programming your brain to alert you when particular information is present in your environment.
- You can use Priming to influence your Pattern Matching. By deciding what you’re looking for, you can program your mind to alert when valuable information pops up.
- Goal setting is useful because it’s an easy way to Prime your mind to look for things that will help you achieve your goal.

Questions for Consideration:

- What are you looking for right now?
- How can you take advantage of priming techniques to enhance your ability to learn quickly and capitalize on unexpected opportunities?

Decision

“At the moment of every day I must decide what I am going to do the next moment; and no one can make this decision for me, or take my place in this.” —

José Ortega y Gasset, philosopher and essayist

Key Ideas:

- A Decision is the act of committing to a specific plan of action.
- If you're not cutting off viable options, you are not making a decision.
- No Decision is ever made with complete information. Lack of information shouldn't prevent you from deciding, the world is too complex to make accurate predictions.
- Failure to make a Decision is itself a Decision. Life doesn't stop if you refuse to choose.
- For best results, be clear and conscious when making a decision.

Questions for Consideration:

- Are you resisting making a clear choice to take a certain action?
- Where is the resistance coming from, and how can you come to a clear decision quickly, based on available information?

Five-Fold Why

What is the “Five-Fold Why”?

“Ask the next question, and the one that follows that, and the one that follows that.” — Theodore Sturgeon, author of *More Than Human*

Key Ideas:

- The Five-Fold Why is a technique to help you find out what you actually want.
- Applying it is easy: whenever you want something, ask yourself “Why?” as many times as needed until you get to the root of the want.
- Discover the root causes behind the want, and you’ll discover new ways to get there.

Questions for Consideration:

- Look at your current goals – are they ends in themselves, or could there be deeper reasons behind your desires?
- How can you use the Five-Fold Why to discover the root causes behind your goals?

Five-Fold How

What is the “Five-Fold How”?

“Go as far as you can see; when you get there you’ll be able to see farther.” —
Thomas Carlyle, essayist and historian

Key Ideas:

- The Five-Fold How is a way to connect your core desires to physical actions.
- Once that you know what you want, ask yourself: “how would you go after it?”
- Continue asking “How?” until you’ve defined your plan in terms of Next Actions.
- If you do it right, each action will give you an experience of what you want as you do it.
- Connect big goals to small actions, and you’ll inevitably accomplish what you want.

Questions for Consideration:

- What’s necessary to achieve your desired end state?
- Can you apply recursive approximation to break that destination down into small, immediate actions?

Next Action

“If we attend continually and promptly to the little that we can do, we shall ere long be surprised to find how little remains that we cannot do.” — Samuel Butler, nineteenth-century novelist

Key Ideas:

- The Next Action is the next specific, concrete thing you can do now to move a project forward.
- You don’t have to know everything to move forward, just the next step.
- To keep yourself from feeling overwhelmed, track your projects and tasks separately.
- Focus on completing the Next Action, and you’ll eventually and inevitably complete the entire project.

Questions for Consideration:

- Make a list – what projects are you currently working on?
- For every project on your list, what’s the very next action you could take right now that would move the project forward?

Externalization

Words are a lens to focus one's mind. — Ayn Rand, philosopher and author of *Atlas Shrugged* and *The Fountainhead*

Key Ideas:

- We respond better to stimuli in our Environment than our own internal thoughts. We can improve our productivity by converting our internal thoughts into an external form.
- Externalization lets us reinput information into our brains via a different channel, which translates into additional cognitive resources.
- There are two primary ways to externalize your thoughts:
 - Writing. This is the best way to capture ideas, plans and tasks.
 - Speaking.
- Don't keep your thoughts locked up in your head.
- The more you Externalize, the clearer your thoughts will become, and the faster you'll reach your goals.

Questions for Consideration:

- How often do you externalize your thoughts, either by writing, drawing, or discussing them with others?
- What could you do make externalization a regular practice?

Self-Elicitation

“How do I know what I think until I hear what I say?” — E. M. Forster, novelist and social activist

Key Ideas:

- Self-Elicitation is the process of asking yourself questions, and then answering them.
- By recording your answers in a journal, logging when specific behaviors occur and noting the frequency of these behaviors, you’ll discover patterns. If you know the pattern, it’s easier to change the behavior.
- Make it a Habit to consistently ask yourself good questions, and you’ll overcome your challenges easier.

Questions for Consideration:

- Do you consistently ask yourself good questions?
- What questions can you ask yourself on a regular basis to ensure you’re on track?

Counterfactual Simulation

“To be able to ask a question clearly is two-thirds of the way to getting it answered.” — John Ruskin, nineteenth-century art critic and social theorist

Key Ideas:

- Counterfactual Simulation is like applied imagination: consciously asking a “what if” question, and letting your mind imagine the rest.
- Based on the stored Patterns, Associations and Interpretations, your brain will produce what it believes is the most likely scenario.
- Counterfactual is very useful because of its flexibility: you can simulate anything you want.
- When you use Counterfactual Simulation, you assume the event or state you’re simulating is already true. The mind then fills the gaps between A (where you are) and B (where you want to be).

Questions for Consideration:

- How often do you dedicate time to imagining what would happen if X occurred?
- When can you set aside dedicated time just for counterfactual simulation?

Parkinson's Law

"Work expands so as to fill the time available for its completion." — Cyril Northcote Parkinson, naval historian and management theorist

Key Ideas:

- Parkinson's Law: "Work expands so as to fill the time available for its completion." If something must be done in a year, it'll be done in a year. If it must be done in six months, then it will.
- Parkinson's Law can't be used to set unreasonable deadlines.
- Parkinson's Law is best used as a Counterfactual Simulation question. What would it look like to finish a project on a very short period of time?

Questions for Consideration:

- Are there any areas of your life that are open-ended, without any sort of limitation?
- How can you use Parkinson's Law to set a productive artificial limitation to increase your efficiency?

Doomsday Scenario

“What looks large from a distance, close up ain’t never that big.” — Bob Dylan, songwriter and musician

Key Ideas:

- A Doomsday Scenario is a Counterfactual Simulation where you ask the question: “what’s the worst that could happen?”
- Doomsday Scenarios are pessimistic to make you realize that in most cases, you’ll be ok.
- Remember: most threats nowadays are no longer life-or-death situations.
- By Externalizing your worst fears, you realize what they really are: irrational overreactions.
- Once you’ve imagined the Doomsday Scenario, you can work to improve upon the worst case.

Questions for Consideration:

- Imagine your armageddon scenario – what happens, and what can you do prevent it from happening or mitigate the impact if does happen?
- How can you improve upon your worst case scenario?

Excessive Self-Regard Tendency

“I haven’t been wrong since 1961, when I thought I made a mistake.” — Bob Hudson, politician

Key Ideas:

- Excessive Self-Regard Tendency is the natural tendency to overestimate your own abilities.
- Excessive Self-Regard Tendency is more pronounced if you don’t know much about the subject at hand. The more incompetent people are, the less they realize they are incompetent. On the contrary, the more you know about a subject, the more accurate your perception of your competence will be.
- Once you learn more, you become “consciously incompetent”: you know what you don’t know. Developing “conscious competence”, knowing what you’re doing, takes experience, knowledge and practice.
- A healthy amount of humility can keep you from assuming you know everything, and therefore making you want to keep learning.
- Excessive Self-Regard Tendency is common, don’t think you’re immune to it. It helps to cultivate relationships with people who aren’t afraid to tell you when you’re wrong.

Questions for Consideration:

- What checks have you placed on your own self-confidence?
- Do you have trusted, experienced advisors who can prevent you from making mistakes of ignorance?

Confirmation Bias

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." — Mark Twain

Key Ideas:

- Confirmation Bias is the tendency for people to look for information that supports their conclusions, and ignore information that might prove them wrong. The stronger the opinion, the more we ignore sources that challenge it.
- The way to counter Confirmation Bias is to actively look for information that challenges your hypothesis.
- Looking for disconfirming information is uncomfortable, but useful.

Questions for Consideration:

- How much time are you spending seeking evidence that you're right vs. evidence that you're wrong?
- When you come across disconfirming evidence, how seriously do you consider it?
- How can you consider more disconfirming evidence?

Hindsight Bias

“Finish each day and be done with it. You have done what you could. Some blunders and absurdities no doubt crept in; forget them as soon as you can. Tomorrow is a new day; begin it well and serenely and with too high a spirit to be encumbered with your old nonsense.” — Ralph Waldo Emerson, essayist and poet

Key Ideas:

- Hindsight Bias is the tendency to kick yourself for things “you should have known.”
- Every decision you’ll ever make will be lacking some information. That’s why we use Interpretation to fill in the blanks.
- It’s important to realize that the feeling of “feeling stupid” for not predicting an outcome is irrational, and that there’s nothing you can do to go back and change it.
- Hindsight Bias becomes destructive if you judge yourself or other for not knowing the unknowable.
- Reinterpret your past mistakes in a positive way, focus on what’s ahead.

Questions for Consideration:

- Do you still feel bad about something that happened in the past?
- How does your understanding of sunk cost and hindsight bias change the way you think about that situation?
- Is there anything that you can do to improve the situation instead of continuing to feel bad?

Performance Load

“If not controlled, work will flow to the competent man until he submerges.” — Charles Boyle, former U.S. congressional liaison for the National Aeronautics and Space Administration (NASA)

Key Ideas:

- Performance Load is what happens when you have too many things to do. Above a certain point, the performance in all those tasks decreases.
- You must set limits to be productive.
- Limits have consequences. You need to be ready to accept their consequences, otherwise you are not setting any limits.
- Have unscheduled time to handle the unexpected. If your agenda is always full for not using limits, you won't be able to handle surprises that might come your way.

Questions for Consideration:

- Are you overburdening yourself, or working in an environment that treats overwork as an expectation of the job?
- What can you do to make your workload more sustainable?

Energy Cycles

“We all have times when we think more effectively, and times when we should not be thinking at all.” — Daniel Cohen, children’s author

Key Ideas:

- Your body has Energy Cycles: natural rhythms of energy during the day.
- Hacking your Energy Cycles (e.g.: not resting) can sound tempting but it’s ultimately unproductive.
- Here are four ways to work with your body and not against it:
 - Learn your patterns: keep a track of your energy during different parts of the day, and you’ll eventually see which are the best moments for you to work and rest.
 - Maximize your peak cycles: plan your day in order to take advantage of the moments where you have the most energy.
 - Take a break: When you’re in a down cycle, it’s better to rest than power through. Rest is not optional.
 - Get enough sleep: Sleep deprivation results in a prolonged cycle, lowering your productivity.
- Paying attention to your Energy Cycles and working accordingly, will help you get the most out of your time available.

Questions for Consideration:

- When do you feel most energetic?
- What times of the day work best to do certain kinds of work?
- What do you do to manage your energy during the day?

Stress and Recovery

“Only those who will risk going too far can possibly find out how far one can go.” — T. S. Eliot, poet and playwright

Key Ideas:

- It's helpful to learn what your breaking point is: know how much you're capable of doing before burning out.
- Paying attention to Stress and Recovery is the how you make sure that you don't have more on your plate that you can't handle.
- It's impossible to know how much you can do until you push your limits. The knowledge you'll gain will help make better decisions about which projects say yes and no to.
- That being said, remember this: you're not a machine. you can't operate always at 100%.
- Dedicating time to relax and recovery will make your life more enjoyable and productive.

Questions for Consideration:

- Have you ever reached your breaking point? What did you learn?
- Are you setting aside enough time for rest and recovery?
- How can you ensure your expectations concerning your available productive energy, focus, and effort are realistic and sustainable?

Testing

“Discoveries are often made by not following instructions, by going off the main road, by trying the untried.” — Frank Tyger, political cartoonist and columnist

Key Ideas:

- Testing is the act of trying something new, a way of applying the Iteration Cycle to your own life. You can't make positive changes unless you try something new.
- Here's a simple structure to help you experiment:
 - Observations: what do you see that you want to improve?
 - Knowns: what do you know that is related to your observations?
 - Hypotheses: what might cause to contribute to your observations?
 - Tests: which hypotheses will you try?
 - Results: what happened after each test? Did it improve your observation?
- Testing is the best way to ensure that your life gets better over time.
- Over the time you discover Patterns, and you become better at knowing what makes your life better or worse.

Questions for Consideration:

- Are you constantly testing new things and methods of getting more of what you want?
- How can you make testing a part of your daily life?

Mystique

“What grief we’d avoid if we knew how to transfer emotional experience across generations, as we do money or scientific knowledge.” — Alain de Botton, philosopher and essayist

Key Ideas:

- It’s easy to like the idea of doing something. It’s different to like actually doing it.
- Mystique is powerful: it makes things with a little mystery appear more attractive than what they really are.
- The best way to counteract Mystique is to talk to someone who does what you are interested in. Ask them and learn the high and low points of their job.
- No situation is perfect. Learn from others before you start, it will help greatly to make a better decision.

Questions for Consideration:

- How well do you understand the reality and the tradeoffs behind what you want?
- Are you willing to pay the price?

Hedonic Treadmill

“If thou wilt make a man happy, add not unto his riches but take away from his desires.” — **Epicurus**, ancient Greek philosopher

Key Ideas:

- We pursue pleasurable things because we think they'll make us happy.
- When we finally achieve or acquire what we're seeking, we adapt to our success in a very short period of time, and our success no longer gives us pleasure. As a result, we begin seeking something new, and the cycle repeats.
- The Hedonic Treadmill explains why people who achieve wealth, status, and fame continue to seek more.
- Short-circuiting the cycle:
 1. 1. Work to make “enough” money.
 2. 2. Focus on health and energy.
 3. 3. Spend time with people you enjoy.
 4. 4. Remove chronic annoyances.
 5. 5. Pursue a new challenge.

Questions for Consideration:

- Are you pursuing pleasure beyond the point of Diminishing Returns?
- What can you do to move off of the Hedonic Treadmill?

Comparison Fallacy

“Never compare your inside with someone else’s outside.” —**Hugh MacLeod**, author of *Ignore Everybody*

Key Ideas:

- Other people are not you, and you are not other people.
- You have unique skills, goals, and priorities. In the end, comparing yourself to other people is silly, and there’s little to be gained by it.
- The only metric of success that matters is this: are you spending your time doing work you like, with people you enjoy, in a way that keeps you financially Sufficient?

Questions for Consideration:

- How often do you compare yourself to other people? What do you tend to compare?
- What can you do to remind yourself about the Comparison Fallacy whenever you notice yourself feeling envy or anxiousness?

Locus of Control

“Grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference.” — The Serenity Prayer

Key Ideas:

- Understand your Locus of Control to separate what you can control from what you can't.
- Trying to control everything that happens to you is a recipe for disaster and frustration, and a waste of time and energy.
- Focus on your efforts instead of results that you can't control.
- Focus your energy on what you can influence, and let everything else go.

Questions for Consideration:

- What is within your influence or control? What is not?
- Are you focusing on things that are within your Locus of Control, or are you worrying about things you can't do anything about?

Attachment

“If thou wilt make a man happy, add not unto his riches but take away from his desires.” — Epicurus, ancient Greek philosopher

Key Ideas:

- The more Attached you are to an idea, the more you limit your flexibility and reduce your chances of finding a better way.
- Twists in life are bound to happen. It's smart to live to fight another day.
- Acceptance means applying the concept of Sunk Costs to yourself.
- The way to deal with Attachment is to accept that your idea is no longer feasible.
- Accept what happened and focus on ways to make it better.

Questions for Consideration:

- How attached are you to a certain vision of how you want life to be?
- Is it useful in driving you forward, or is it limiting your flexibility?

Personal Research and Development (R&D)

“If a man empties his purse into his head, no one can take it from him. An investment in knowledge always pays the highest return.” – Benjamin Franklin

Key Ideas:

- A Personal R&D budget can provide you with guilt-free spending on anything that will improve your skills and capabilities.
- R&D exists because it works. Investing in your personal skills and capabilities can enrich your life and open possibilities to additional income sources.
- What would it look like if you set aside a small percentage of your income as a Personal R&D budget?

Questions for Consideration:

- What are you doing to fund your personal R&D budget?
- How are you planning to invest your personal R&D funds?

Limiting Belief

“Intelligent discontent is the mainspring of civilization.” —**Eugene V. Debs**, labor union activist

Key Ideas:

- Limiting Beliefs are beliefs or worldviews that can act as barriers to achieving a Goal or maintaining a Habit or State of Being.
- There are two ways of looking at the world:
 1. 1. Your skills and abilities are fixed.
 2. 2. Your skills and abilities are malleable. If you keep working on something, you'll eventually get better.
- The Growth Mindset means that you'll keep going if you encounter a difficulty, because you are always getting better.
- The way you respond to challenges determines how successful you'll be.
- There are no “fundamental defects.” View your mind as a muscle and help it grow.

Questions for Consideration:

- Can you identify any potential limiting beliefs in your own life?
- What do other people seem to be able to do that you believe you “can’t” do or “aren’t good at” doing?

Chapter 8: Working With Others

Take away my people but leave my factories, and soon grass will grow on factory floors. Take away my factories but leave my people, and soon we will have a new and better factory. —Andrew Carnegie, nineteenth-century industrialist

Power

“Force is all-conquering, but its victories are short-lived... Nearly all men can stand adversity, but if you want to test a man’s character, give him power.” —

Abraham Lincoln, sixteenth president of the United States

Key Ideas:

- All human relationships are based on Power and usually take one of two forms:
 - Influence, the ability to encourage someone to do what you suggest.
 - Compulsion, the ability to force someone to do what you command.
- Influence is much more effective than Compulsion.
- Power represents your ability to get things done through other people. The more power you have, the more things you can do. But remember: with great power comes great responsibility. There’s nothing morally wrong with wanting more Power.
- The reason that interactions between many people become political is the present nature of Power. If you don’t have a plan, someone will have one for you.
- The best way to increase your power is to increase your Influence and Reputation.

Questions for Consideration:

- How much power do you have at present?
- Do you rely primarily on influence or compulsion to get what you desire?

Comparative Advantage

“Be a first-rate version of yourself, not a second-rate version of someone else.” — Judy Garland, actress and singer

Key Ideas:

- Comparative Advantage means it's better to capitalize on your strengths than to shore up on your weaknesses.
- Businesses work better if the individuals focus on what they're best, and work with other specialists.
- Comparative Advantage is the reason why diverse teams outperform homogeneous teams.
- Self-reliance improves your flexibility and knowledge, but it's harmful taken to the extreme. Work with others to get more done, faster and better.
- The benefit of self-education is being able to see good talent in others. By learning a little about their field, you understand if they are good or not.

Questions for Consideration:

- What can you do better than 90% of the human population?
- How can you spend more of your time doing those things, and less time doing things that others can do better than you?

Communication Overhead

“If you had to identify, in one word, the reason why the human race has not achieved, and never will achieve, its full potential, that word would be: ‘meetings.’” — Dave Barry, comedian and newspaper columnist

Key Ideas:

- Communication Overhead is the proportion of time you spend communicating with your team instead of getting productive work done.
- Communication is absolutely necessary, but as the size of your team increases, so does Communication Overhead.
- The solution is simple but not easy: make your team as small as possible. This will save everyone’s time and increase productivity.

Questions for Consideration:

- How much of your team’s time is spent communicating with each other vs. actually making progress toward the goal?
- How can you reduce communication time while keeping everyone on the same page?
- Could you feasibly reduce the size of the active team to decrease communication overhead?

Importance

"The deepest principle in human nature is the craving to be appreciated." —
William James, doctor and pioneering psychologist

Key Ideas:

- Everyone wants to feel Important. The more important you make people feel, the more they'll value their relationship with you.
- The more interest you show in other people, the more important they'll feel.
- Making someone feel important is not difficult, yet is rare in today's world: pay attention, listen intently, express interest and ask questions.

Questions for Consideration:

- In your daily interactions with others, how much of an effort do you put forth to make them feel important?
- How can you remember to treat others as important, regardless of status or position?

Safety

“You can’t operate a company by fear, because the way to eliminate fear is to avoid criticism, and the best way to avoid criticism is to do nothing.” — Steve Ross, former CEO of Time Warner

Key Ideas:

- Effective communication only occurs when both parties feel safe. As soon as one party feels unimportant, they will withdraw mentally and emotionally from the conversation.
- People need to feel safe to express what they think and what’s important to them.
- The STATE model to communicate without anger or defensiveness:
 - Share your facts. Facts are less controversial, so lead with them.
 - Tell your story. Explain your point of view, without judging or insulting.
 - Ask for others’ paths. Listen to their side of the story.
 - Talk tentatively. Avoid judgments and ultimatums.
 - Encourage testing. Make suggestions and ask for input until you agree on a course of action.
- People have different attitudes. By knowing how to adapt your words and actions to the other party’s personality, you’ll get closer to an effective communication.

Questions for Consideration:

- How easily can you identify a person who is stonewalling?
- What can you do to make them feel safe enough to communicate openly?

Golden Trifecta

What is the “Golden Trifecta”?

*“Any fool can criticize, condemn, and complain – and most fools do.” — Dale Carnegie, author of *How to Win Friends and Influence People**

Key Ideas:

- The Golden Trifecta is my way to make others feel important and safe when talking to me: Appreciation, Courtesy and Respect.
- Appreciation means expressing your gratitude for what others are doing for you, even if it's not perfect.
- Courtesy is, simply put, politeness.
- Respect means honoring the other person's status.
- It's important to apply The Golden Trifecta to all your interactions with people, not just the ones you're interested in.

Questions for Consideration:

- How often do you treat people with appreciation, courtesy, and respect?
- How can you remember to use the Golden Trifecta in all interactions with others?

Reason Why

“Civilization advances by extending the number of operations we can perform without thinking.” — Alfred North Whitehead, mathematician and philosopher

Key Ideas:

- Giving a reason for your request increases dramatically people's compliance rate.
- The key is that the reason doesn't have to be important, it just has to be something.
- Humans are predisposed to look for behavioral causes. People will be more receptive if you give them a Reason Why.
- Again: any reason will do!

Questions for Consideration:

- Whenever you make a request, do you give others a reason why they should comply?
- Do you give others a reason to do what you suggest?

Commander's Intent

"Never tell people how to do things. Tell them what to do, and they will surprise you with their ingenuity." — General George S. Patton

Key Ideas:

- Commander's Intent means explaining why something must be done when assigning a task to someone.
- The more your agent understands the purpose behind what must be done, the better he/she will do it.
- Commander's Intent alleviates Communication Overhead. By being clear about the purpose behind a plan, others can act toward that goal without the need of constant communication.

Questions for Consideration:

- Do you communicate the intent behind your actions alongside your plans?
- What information can you provide the people you're working with that will help them do their work more effectively?

Bystander Apathy

“Accountability is about one person taking responsibility. If two people are accountable for the same decision, no one is really accountable.” — Glyn Holton, investment risk management consultant

Key Ideas:

- Bystander Apathy is an inverse relationship between the number of people who could take action and the number of people who actually choose to act.
- Bystander Apathy explains why groups like committees never get anything done: everyone assumes someone else will step up.
- The best way to eliminate Bystander Apathy in project management is to have clearly defined tasks for each individual.

Questions for Consideration:

- Does each task have an individual owner?
- Is it absolutely clear who's responsible for what, and when it needs to be done?

Planning Fallacy

What is the “Planning Fallacy”?

“Hofstadter’s Law: it always takes longer than you expect, even when you take into account Hofstadter’s Law.” — Douglas Hofstadter, cognitive scientist and Pulitzer Prize–winning author of *Gödel, Escher, Bach: An Eternal Golden Braid*

Key Ideas:

- Planning Fallacy is the tendency to underestimate completion times.
- When planning, we imagine a scenario where everything goes well, and we underestimate the likelihood of things that could impact the plan.
- It’s appropriate to include a few months of Slack time to make the plan more accurate. Slack time is rarely seen as a positive thing, but it helps to include it into the planning to be ready for unexpected events.
- The inaccuracy of a plan doesn’t make it worthless. Its value doesn’t lie in its prediction, but in helping understand requirements, dependencies and risks.
- Use plans, but don’t depend on them.

Questions for Consideration:

- Do you consistently rely on plans in your work?
- Do you value the plans for the thought process required to make them, or do you rely on them to provide an illusion of certainty that doesn’t really exist?

Referrals

“The way to get on in the world is to make people believe it’s to their advantage to help you.” — Jean de La Bruyère, seventeenth-century essayist and moralist

Key Ideas:

- Referrals make it easier for people to choose to work with someone they don’t know.
- Referrals work because they transfer the qualities of being known and liked.
- The more people who know, like, and trust you, the more Referrals you’ll get, and the better off you will be.

Questions for Consideration:

- Do you give referrals to business owners you like and trust?
- What can you do to encourage others to refer prospects to you?

Clanning

“It is a more inspiring battle cry to scream, ‘Die, vicious scum!’ instead of ‘Die, people who could have been just like me but grew up in a different environment!’” — Eliezer Yudkowsky, artificial intelligence researcher and founder of LessWrong.com

Key Ideas:

- Clanning is the process through which humans naturally tend to form distinct groups.
- Identifying ourselves as part of a group is a human instinct.
- Groups naturally form around important issues, positions or events.
- Understand the group dynamic, or you’ll be caught up in it.

Questions for Consideration:

- What groups do you consider yourself affiliated with?
- What does membership in those groups signal to other people, and how does membership in those groups influence how you see the world?

Convergence and Divergence

“The individual has always had to struggle to keep from being overwhelmed by the tribe. If you try it, you will be lonely often, and sometimes frightened. But no price is too high to pay for the privilege of owning yourself.” — Friedrich Nietzsche

Key Ideas:

- Convergence is the tendency of group members to become more alike over time. This is what’s known in business terms as “company’s culture.”
- Convergence also means that groups tend to police themselves.
- Divergence is the tendency of group members to become less like other group members over time.
- Convergence is useful if you consciously choose to spend time with people you’d like to become more like. At the same time, breaking away from groups that aren’t serving you is painful but necessary to grow.
- If your social circle isn’t supporting your goals, change your social circle.

Questions for Consideration:

- Who are you spending time with?
- Knowing that who you spend time with influences how you think and act, do you want to spend more or less time with them?
- How can you spend more time with people you want to become more like over time?

Social Signals

"The only rule is don't be boring and dress cute wherever you go. Life is too short to blend in." — Paris Hilton, socialite

Key Ideas:

- Social Signals are tangible indicators of some intangible quality that increases a person's social status or group affiliation.
- People spend huge amounts of energy and money to send social signals (a Rolex, or a sports team t-shirt and make-up, for example).
- Social Signals have real Economic Value, so build them into your offer if you can.
- To build offers with signaling value, you need to understand what people want to signal to others.
- Connect your offer to one of the Core Human Drives, and people will want what you have.

Questions for Consideration:

- How much time do you spend watching what other people are doing?
- Is that a benefit or a detriment to what you're trying to accomplish?

Social Proof

“If fifty million people say a foolish thing, it is still a foolish thing.” — Anatole France, Nobel Prize–winning novelist and poet

Key Ideas:

- Social Proof is the process through which the actions of other individuals tell us that it’s ok to behave in a certain way.
- When a situation is ambiguous, we learn by watching the behavior of others.
- Testimonials are an effective form of Social Proof to increase sales. The most effective testimonials are the ones that mirror the feelings of your prospects.
- Add Social Proof to your offers to increase your sales.

Questions for Consideration:

- What could you do to show your prospects proof that other people had a good experience with your offer?
- How can you send social signals that it’s safe to buy?

Authority

“Show respect to all men, but grovel to none.” — Tecumseh, eighteenth-century leader of the Shawnee tribe

Key Ideas:

- People tend to comply with Authority figures. This occurs even if they wouldn't take the same action under different circumstances.
- Once a figure has Authority, it becomes strong and persuasive.
- If you're in a position with Authority, people will interact with you differently. People may filter what they tell you in order to tell you what you want to hear, which may not be what you need to hear.
- Developing a strong Reputation will give you the benefits of Authority. Establish yourself as an Authority and you are more likely to increase your sales.

Questions for Consideration:

- What authority figures do you pay attention to on a regular basis?
- Can you develop authority in areas related to your business?

Commitment and Consistency

“A foolish consistency is the hobgoblin of little minds.” — Ralph Waldo Emerson

Key Ideas:

- Commitments are a way of binding people together.
- Breaking a promise can have a negative impact on someone's Reputation, so people usually try to be Consistent with their positions and promises.
- Obtain a small commitment, and you'll get more compliance from your customers.

Questions for Consideration:

- Is there a small request you can make from others to 'get your foot in the door'?
- Once you've obtained a small commitment, is your offer consistent with that promise?

Incentive-Caused Bias

*“It is difficult to get a man to understand something when his salary depends upon his not understanding it.” — Upton Sinclair, Pulitzer Prize–winning author of *The Jungle**

Key Ideas:

- Incentive-Caused Bias says that people with a vested interest in something will tend to guide you in the direction of their interest.
- Incentives influence the way people act. Change the incentive, and you’ll change the behavior.
- Incentives are tricky because they interact with our Perceptual Control systems.
- Incentives can be useful if used properly, but caution is in order. Make sure that your interests match those of the people that receive the incentive.

Questions for Consideration:

- Do you have any incentives that may bias your decisions or actions?
- How may incentives alter the behavior or actions of the people you work with?

Modal Bias

"We find comfort among those who agree with us, and growth among those who don't." — Frank A. Clark, minister and newspaper columnist

Key Ideas:

- Modal Bias is the automatic assumption that our idea is always best.
- The best way to avoid Model Bias is to use Inhibition to temporarily suspend judgment, at least long enough to consider other perspectives and suggestions.
- Model Bias is automatic, we need Willpower to overcome it.
- Keeping an open mind will improve your decision making.

Questions for Consideration:

- Do you have a tendency to assume that your way is the best way?
- What could you do to remember to suspend judgement long enough to listen to the suggestions of others?

Pygmalion Effect

What is the “Pygmalion Effect”?

“High achievement always takes place in the framework of high expectation.” — Charles Kettering, prolific inventor and former head of research for General Motors

Key Ideas:

- The Pygmalion Effect explains that people tend to perform up to the level that others expect of them.
- This effect explains why our relationships are usually self-fulfilling prophecies. Once you set expectations for somebody, that person will tend to live up to that expectation, whether it's good or bad.
- The Pygmalion Effect doesn't justify having unrealistic expectations of other people. Expecting miracles is a recipe for frustration on both ends.
- The paradox of the Pygmalion Effect is that having high expectations of people will produce better results, but it's also more likely you'll be disappointed. If you're assessing someone, remember to judge as objectively as possible.

Questions for Consideration:

- What do you expect from the people you work with? How do you communicate those expectations to them?
- Are your expectations clear and reasonable?
- Are you giving them a great reputation to live up to?

Attribution Error

“Rare is the person who can weigh the faults of others without putting his thumb on the scales.” — Byron J. Langenfeld, World War I aviator

Key Ideas:

- The Attribution Error says that when others screw up, we blame it on them, but when we screw up, we blame the situation and circumstances.
- Avoiding the Attribution Error helps keeping things in good terms with people you work with.
- When something isn't working, find out more about the situation before blaming the person.
- Unless a particular behavior becomes a Pattern, it helps to analyze the situation to see where did the problem come from.

Questions for Consideration:

- Do you usually attribute a person's behavior to character or circumstance?
- How could you make it easy to remind yourself about the possibility of attribution error?

Option Orientation

“The important work of moving the world forward does not wait to be done by perfect men.” — George Eliot, nineteenth-century novelist

Key Ideas:

- When something goes wrong, what matters the most is how you handle the problem. Fixating on the issue doesn't help.
- It's far more productive to focus on options, not issues.
- By focusing your energy on potential options to solve the problem, you're more likely to find a way to make things better.

Questions for Consideration:

- How much control do you actually have regarding a challenge you're currently facing?
- Instead of focusing on the issues, what options do you have at your disposal?

Management

“Management is doing things right; leadership is doing the right things.” — Peter Drucker, father of modern management theory

Key Ideas:

- Management is the act of coordinating a group of people to achieve a specific goal while accounting for any Change or Uncertainty.
- These are the six simple principles of Management:
 - Recruit the smallest group of people that can do the job quickly and effectively.
 - Communicate clearly the End Result, who is responsible for what, and the current status.
 - Treat people with respect. Use The Golden Trifecta consistently.
 - Create a productive Environment, and then let people do their work.
 - Have an aggressive plan to complete the project, but don't have unrealistic expectations regarding certainty and prediction.
 - Measure what you're doing to see if it's working, and make the necessary adjustments and Experimentations.
- Do these well, and your team will be very productive.

Questions for Consideration:

- Does your project require leadership or management?
- What can you do to improve at providing the essentials of what your team needs to get things done, then getting out of the way?

Performance-Based Hiring

“When all is said and done, a lot more is said than done.” —**Lou Holtz**, professional American football coach and sportscaster

Key Ideas:

- Hiring is a tricky business, and there’s no foolproof method to find, attract, and retain star employees and contractors.
- Mistakes in hiring are almost always expensive, and a bad hire can cost you precious time and money, and your team’s limited energy and patience.
- The “golden rule” of hiring: the best predictor of future behavior is past performance.
- If you look for past performance and evaluate a candidate’s work first-hand, you’ll make much better hires.
- Hiring process:
 1. Publicize you’re looking for help.
 2. Use a basic “acid test” for skill.
 3. Ask candidates to show you past projects they’re proud of.
 4. Check references. “Would you work with the candidate again?”
 5. Give promising candidates a short-turnaround project or consulting engagement.

Questions for Consideration:

- What does your current hiring process look like?
- Are you evaluating prospective hires based on past behavior and real work experience?

Chapter 9: Understanding Systems

You do ill if you praise, but worse if you censure, what you do not understand. —
Leonardo da Vinci, inventor, artist, and polymath

Gall's Law

“A complex system that works is invariably found to have evolved from a simple system that worked. The inverse proposition also appears to be true: a complex system designed from scratch never works and cannot be made to work. You have to start over, beginning with a simple system.”— John Gall, systems theorist

Key Ideas:

- Gall's Law says that all complex systems that work evolved from simpler systems that worked.
- If you want to build a complex system that works, build a simpler system first, and then improve it over time.
- Gall's Law is why Prototypes and Iteration work so well when creating value.
- Creating a complex system from scratch is sure to end in failure.

Questions for Consideration:

- Are you trying to build a complex system from scratch?
- Could you start with a simpler system that already works, then build upon it?

Flow

“A process cannot be understood by stopping it. Understanding must move with the flow of the process, must join it and flow with it.” —Frank Herbert, science fiction novelist and author of *Dune*

Key Ideas:

- Every system has Flows: movements of resources in and out of the system.
- Inflows are resources moving into the system, like water into a sink.
- Outflows are resources moving out of the system, like money out of a bank account.
- Understand the Flows to understand the system.

Questions for Consideration:

- What are the inflows and outflows of the system you’re investigating – money, resources, people, or something else altogether?
- How fast are they flowing in, and how quickly are they flowing out?

Stock

“Goods in any storehouse are useless until somebody takes them out and puts them to the use they were meant for. That applies to what man stores away in his brain, too.” — Thomas J. Watson, former president of IBM

Key Ideas:

- A Stock is a pool of resources.
- By following the Flow, you'll find where resources pool together.
- To increase the stock, increase the Inflows and decrease the Outflows. If you want to decrease the stock, do the opposite.
- Find the Stock, and you'll find resources waiting to be used.

Questions for Consideration:

- Where are the stocks in the system?
- Where do flows tend to accumulate, and why?

Slack

“A man with a surplus can control circumstances, but a man without a surplus is controlled by them, and often has no opportunity to exercise judgment.” —Harvey S. Firestone, founder of the Firestone Tire and Rubber Company

Key Ideas:

- Slack is the amount of resources present in a Stock.
- For a system to operate efficiently, the Slack should be just right: not too big, not too small.
- Slack is tricky: too much and you're wasting money, too little and you face the risk of running out of Stock.

Questions for Consideration:

- How much slack is there in your system?
- Is there any danger of a stock running empty when a resource is needed to produce an outflow?
- How can you change the system to ensure there's always just enough slack to keep the system running?

Constraint

“Once you eliminate your number one problem, number two gets a promotion.” — Gerald Weinberg, consultant and author of *The Secrets of Consulting*

Key Ideas:

- A system’s performance is limited by the availability of critical input. Eliminate the Constraint and performance will improve.
- These are Goldratt’s five steps to eliminate Constraint:
 - Identification: find the limiting factor.
 - Exploitation: make sure that the resources related to the Constraint aren’t wasted.
 - Subordination: redesign the system to support the Constraint.
 - Elevation: permanently increase the capacity of the Constraint.
 - Reevaluation: after making a change, reevaluate a system to see where’s the Constraint.
- The more quickly you move through these steps, the more your system’s Throughput will improve.

Questions for Consideration:

- What constraints are holding back the continued successful operation of the system?
- What can you do to eliminate or alleviate the limiting constraint?
- Is it possible to preemptively add a stock in front of a constraint to strategically prevent that constraint from limiting the system, even if inflows and outflows fluctuate?

Feedback Loop

“Systems of information-feedback control are fundamental to all life and human endeavor... Everything we do as individuals, as an industry, or as a society is done in the context of an information-feedback system.” — Jay W. Forrester, systems theorist and professor at MIT

Key Ideas:

- Feedback Loop exists in a system when an output becomes the input in the next cycle.
- Balancing Loops dampen system's outputs with each cycle. Think of a tennis ball, and how it loses height with each bounce until it stays still.
- Reinforcing Loops amplify the system's output with each cycle. Think of interest payments: each cycle makes the next payment even bigger, resulting in more interest, over and over again.
- There are Feedback Loops everywhere, and it's critical to notice them to appreciate a system's complexity.

Questions for Consideration:

- What feedback loops exist in the system you're examining?
- Which stocks and flows are they affecting?
- Are they reinforcing loops or balancing loops?

Autocatalysis

“The system that will evolve most rapidly must fall between, and more precisely on, the edge of chaos—possessing order, but with the parts connected loosely enough to be easily altered.” — E. O. Wilson, systems theorist

Key Ideas:

- Autocatalysis is a reaction whose output produces the raw materials necessary for an identical reaction.
- An autocatalyzing system will produce the inputs needed for the next cycle as a by-product of the previous cycle. This results in a positive, self-reinforcing Feedback Loop, where the system will grow until the system changes and produces less output.
- If your system has an autocatalyzing element, it'll grow more quickly.

Questions for Consideration:

- How can you build an autocatalyzing loop into your business structure?
- What can you do to ensure that every new customer you have makes it easier to attract even more customers?

Environment

What is an “Environment”?

“Reality is that which, when you stop believing in it, doesn’t go away.” — Philip K. Dick, science fiction novelist and short story writer

Key Ideas:

- An Environment is the structure in which a system operates.
- When the Environment changes, the system must do it too to keep continue operating.
- Always consider the Environment and adapt your system to it.

Questions for Consideration:

- What environment is your system operating in?
- What changes in the environment could influence the operation of your system?

Selection Test

“Any one response to the universe, however powerful, becomes inappropriate with time and change. Those who become utterly dependent on one means of mastery will find themselves unable to cope with the future.” — Frank Herbert, science fiction novelist and author of *Dune*

Key Ideas:

- A Selection Test is an environmental constraint that determines which systems self-perpetuate and which ones don't.
- It's like breathing air for a system: if they don't bring enough revenue, they die.
- If the Environment changes, the Selection Test changes as well.
- If you can identify the Selection Test in a market, you'll be able to compete there more effectively.
- Ignore the Selection Tests at your own peril.

Questions for Consideration:

- What selection tests relate to the system in question?
- What determines whether or not this particular system survives and continues to develop?
- Is the system able to change rapidly enough to changes in the environment? How do those changes occur?

Uncertainty

“He who lives by the crystal ball soon learns to eat ground glass.” — Edgar R. Fiedler, economist

Key Ideas:

- The difference between Risks and Uncertainty is that Risks are known unknowns, you know what might happen. Uncertainties are unknown unknowns, there's no way to expect that that could happen.
- You can't know if a something unexpected will occur, all you can do is remain flexible, prepared and Resilient to react properly.
- Accepting Uncertainty is accepting the real world, instead of coming up with a nicer one that doesn't exist.
- Don't rely on making predictions. Plan for flexibility instead.

Questions for Consideration:

- How much does your plan rely on accurately predicting or forecasting the future?
- Can you prepare for several different scenarios instead of relying on making an accurate prediction?

Change

“It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.” — Charles Darwin, naturalist and pioneer of evolutionary theory

Key Ideas:

- All systems Change. Complex systems are in constant state of flux.
- It’s hard to know how a system will change, but it’s certain that it will.
- Reaching a point with your business where everything is perfect and unchanging is impossible.
- The more flexible you are, the better prepared you’ll be when Change comes.

Questions for Consideration:

- Do your plans account for the ever-present reality of change and randomness?
- How can you constantly remind yourself that the world is not a static place?

Interdependence

“When we try to pick out anything by itself, we find it hitched to everything else in the universe.” — John Muir, naturalist

Key Ideas:

- Interdependence means that complex systems depend on other systems to be able to operate.
- Highly interdependent systems are called “tightly coupled” systems. The more tightly coupled these systems are, the more they will be affected by failures on the systems they depend on.
- “Loosely coupled” systems have low interdependence between each other.
- The less dependent a system is, the less rigid and time-dependent it is, and the more Slack it has.
- By removing dependencies you can make a system less interdependent, and therefore decrease the chances of a mistake in one system to cascade to the other systems.

Questions for Consideration:

- Where do interdependencies exist in your system?
- How tightly-coupled is the system, and can you do anything to reduce unnecessary dependencies.

Counterparty Risk

“The man who makes everything that leads to happiness depend upon himself, and not upon other men, has adopted the very best plan for living happily.” —
Plato, ancient Greek philosopher

Key Ideas:

- Counterparty Risk is the possibility that other people won't deliver what they have promised.
- The more your system depends on other people, the higher the risk of failing.
- If your system relies on the performance of other people, you need to prepare for the possibility that they won't reach your expectations.

Questions for Consideration:

- Are other parties responsible for supplying inflows or processes in your system?
- What is the risk that they won't perform as expected, and how would a failure effect your system?
- Can you minimize or mitigate that risk?

Second-Order Effects

*“While we are free to choose our actions, we are not free to choose the consequences of our actions.” — Stephen Covey, author of *The Seven Habits of Highly Effective People**

Key Ideas:

- Every action has a consequence, and each consequence has another consequence. These are called Second-Order Effects.
- Every change you make to a system will have Second-Order Effects, which may affect the system's functionality.
- Be careful when making changes, they may have the opposite effect of what you aimed for.

Questions for Consideration:

- What are the probable consequences of a system change you're considering?
- What are the probable consequences of those consequences?
- What can you do to minimize the probability and cost of unintended consequences?

Normal Accidents

“The problem is not that there are problems. The problem is expecting otherwise and thinking that having problems is a problem.” — Theodore Rubin, psychiatrist and columnist

Key Ideas:

- Normal Accidents is what we all know as “shit happens.”
- The more complex a system is, the higher the probability of something eventually going wrong.
- Overreacting to Normal Accidents is counterproductive: if you want the system to fail less, making it more complex doesn’t help.
- The best way to avoid Normal Accidents is to analyze breakdowns when they happen to learn about them and create contingency plans in case they happen again in the future.
- Normal Accidents are the reason you should keep your systems as loose as possibly (without affecting its performance). Accidents will happen, it’s just a matter of when.

Questions for Consideration:

- Do you have plans in place for when your system fails?
- Do you take time to learn when your system breaks down?
- What can you do to avoid overreacting when problems inevitably occur?

Chapter 10: Analyzing Systems

“If you can’t understand it, you can’t change it.” — Eric Evans, technologist

Deconstruction

“Out of perfection nothing can be made. Every process involves breaking something up.” — Joseph Campbell, mythologist and author of *The Hero with a Thousand Faces*

Key Ideas:

- Deconstruction is the process of separating complex systems into the smallest subsystems possible to help understand it.
- Once you’ve identified the subsystems, you can isolate them to see how they work and what part they play in the big system and build your understanding from the ground up.
- Don’t lose sight of Interdependence. Remember that each subsystem is a part of a bigger system.
- Creating diagrams and flowcharts can help you understand how it all comes together.
- It’s important to consider the present conditions in a system and how it affects each subsystem.

Questions for Consideration:

- Can you break down the system you’re analyzing into smaller sub-systems, then isolate them to understand how they work?
- Can you diagram the inflows, processes, and outflows?
- Where does one sub-system begin, and where does it end? How do the sub-systems fit together?

Measurement

“In God we trust... all others bring data.” — W. Edwards Deming, production management expert and pioneer of statistical process control

Key Ideas:

- Measurement is the process of collecting data as the system operates.
- Measurement also allows to compare systems with each other.
- The best way to avoid Absence Blindness is to measure to identify potential issues that you might not be seeing.
- The first step to improving a system is collecting data, and you do that with Measurement.

Questions for Consideration:

- What are the critical parts of the system you're analyzing?
- What could you measure to determine how well the system is operating?

Key Performance Indicator (KPI)

"It is better to have an approximate answer to the right question than an exact answer to the wrong question." — John Tukey, statistician

Key Ideas:

- Not all Measurements are equally important. Measurements of the critical parts of a system are called Key Performance Indicators (KPIs).
- These are a few questions, related to the Five Core Business Processes you can use to identify the KPIs:
 - How quickly is the system creating value? What is the level of inflows?
 - How many people are paying attention to your offer? How many prospects do you have?
 - How many prospects are becoming paying customers?
 - How quickly can you serve each customer? What is your complaints rate?
 - What is your profit margin? How much purchasing power do you have?
- Try to limit yourself to three to five KPIs. If you overload yourself with data, you won't be able to make significant changes.
- Focus on your KPIs to improve your system with the critical data.

Questions for Consideration:

- What are the key components of the system you're analyzing? How can you measure them?
- Of those measurements, what is the set of 3-5 KPIs that will give you the most important information you need to know about how the system is operating?

Garbage In, Garbage Out

“Let us watch well our beginnings, and results will manage themselves.” —
Alexander Clark, nineteenth-century U.S. ambassador and civil rights activist

Key Ideas:

- Garbage In, Garbage Out is a principle that says that if you put useless input into a system, you'll get useless output.
- Be mindful of what you start with to ensure a desired output.
- To improve the results of your system, it pays to look at the quality of your input and make the necessary changes.

Questions for Consideration:

- What is the current quality of the inflows of to your critical systems?
- What is the quality of the data you're collecting about the system?
- How can you increase the quality of the inflows into your critical systems?

Tolerance

“The road to wisdom? Well, it’s plain, and simple to express: err and err and err again, but less and less and less.” — **Piet Hein**, mathematician and poet

Key Ideas:

- A Tolerance is an acceptable level of “normal” error in a system.
- Within a given range of measurements, the system is performing as intended. As long as the errors don’t exceed a certain threshold, urgent intervention is not required.
- Tolerances are often referred to as being “tight” or “loose.”
- The reliability of a system is often measured in terms of a percentage.
- Tight tolerances are very useful, and are a positive indicator of quality: after all, you don’t want mistakes or variations.

Questions for Consideration:

- How tight are your current Tolerances?
- Which parts of your system would benefit from tight Tolerances?
- What can you do to work toward tighter Tolerances for the critical parts of the system over time?

Analytical Honesty

“That which can be destroyed by the truth should be.” — P. C. Hodgell, professor and author of *The God Stalker Chronicles*

Key Ideas:

- Analytical Honesty means measuring and analyzing your data dispassionately.
- The best way to maintain Analytical Honesty is to have your measurements evaluated by someone who isn't invested in your system.
- Don't lie to yourself when it comes to you data: be honest and focus on improving the system instead.

Questions for Consideration:

- Are your measurement practices truly accurate?
- How can you prevent incentive-caused bias and confirmation bias from compromising your ability to analyze your system dispassionately?

Context

“If you don’t understand something, it’s because you aren’t aware of its context.” — Richard Rabkin, psychiatrist

Key Ideas:

- Context is the use of related measurements to provide additional information to the data you’re examining.
- Aggregate measures are worthless by themselves. How much is \$1000 of revenue? It depends on your Context.
- Don’t focus on “magic numbers” when tracking your results. No measures matter in isolation, look at them in context with other measurements.

Questions for Consideration:

- How often do you rely on a single measurement to tell the whole story?
- Does that single measure relate all appropriate context?
- If not, which measures would help make your understanding more comprehensive and accurate?

Sampling

“If you don’t believe in sampling theory, next time you go to the doctor and he wants to take a little blood, tell him to take it all.”— Gian Fulgoni, founder and chairman of comScore, Inc.

Key Ideas:

- Sampling is the process of taking a small percentage of the total output and using it as a proxy for the entire system.
- Sampling can help you identify systemic errors quickly.
- Always make sure to test a random and uniform sample.
- Sampling is good for quick tests of quality without incurring huge costs.

Questions for Consideration:

- Can you test the total output of your system, or would a sample be sufficient?
- What is the largest sample you can feasibly collect?

Margin of Error

“Everyone generalizes from one example. At least, I do.” —**Steven Brust**,
science fiction author

Key Ideas:

- Margin of Error is an estimate of how much you can trust your conclusions from a given set of observed Samples.
- The more samples you take, the higher the probability of your Confidence Interval.
- Small sample sizes can lead to misleading measurements. Always collect the largest samples you can to ensure better results.

Questions for Consideration:

- How confident are you in the quality of your measurements and analysis?
- Is it possible to increase your sample size to add confidence to your assessment?

Ratio

“He who refuses to do arithmetic is doomed to talk nonsense.”— John McCarthy, computer and cognitive scientist who coined the term “artificial intelligence”

Key Ideas:

- Ratio is the method of comparing two measurements against each other. Divide your results by your input and you can get many useful relationships in your system.
- Tracking Ratios is a great way to see how the system is changing and what direction is taking.
- After running an analysis, it helps to construct Ratios in a creative way to see the most important parts of your system.

Questions for Consideration:

- What ratios could you construct that would make it easy to see relationships between critical parts of your business?
- Which measurements are particularly important to compare? Are they important enough to be KPIs?

Typicality

"It ain't what you don't know that hurts you. It's what you know that ain't so." –

Will Rogers, American cowboy and comedian

Key Ideas:

- It's often useful to calculate or estimate a "typical" value for a certain measurement.
- A Mean (or average) is calculated by adding the quantities of all data points, then dividing by the total number of data points available. They are simple to calculate, but are prone to having outliers that skew the average too high or low to be representative.
- A Median is calculated by sorting the values from high to low, then finding the quantity of the data point in the middle of the range. By definition, 50% of the values will be below the Median. Comparing the Median to the Mean can tell you if the average is influenced by outliers.
- A Mode is the value that occurs most frequently in the set. They are useful for finding clusters of data.
- A Midrange is the value halfway between the highest and lowest data points.
- These are all tools that can help your system analysis if you use them right, but they can be misleading if you use the wrong tool for the situation.

Questions for Consideration:

- Would using a mean be appropriate for the analysis you're conducting, or would using a median or mode be a more accurate assessment?
- How can you remember to use a median instead of misusing a mean?

Correlation and Causation

“Correlation isn’t causation, but it sure is a hint.” — Edward Tufte, statistician, information design expert , and professor at Yale University

Key Ideas:

- A Causation is a complete chain of cause and effect.
- Correlation is not Causation. Just because one measurement is associated with another, doesn’t mean it was caused by it.
- The more changes in a system, the harder it is to establish a Causation.
- The more you can isolate the change you make, the more you can tell if it really was the reason behind the results.

Questions for Consideration:

- Are you finding causation, or correlation?
- How can you adjust for different variables to isolate the effects of the changes you make?

Norms

“Those who cannot remember the past are condemned to repeat it.” — George Santayana, philosopher, essayist, and aphorist

Key Ideas:

- Norms are measures that use historical data to provide Context for current measurements. They are a way of learning from the past to avoid previous mistakes.
- When measurement practices change, Norms based on the previous measurements are no longer valid. Change the measurement methods, and you invalidate any Norms based on them.
- Past performance is no guarantee of future performance. Examine your Norms to make sure they are valid.

Questions for Consideration:

- What is the lifespan of this information?
- Does it need to be utilized immediately to be valuable, or can you use it as a historical norm?
- How often do you need to re-test your norms to ensure their validity?

Proxy

“How many legs does a dog have if you call the tail a leg? Four. Calling a tail a leg doesn’t make it a leg.” — Abraham Lincoln

Key Ideas:

- A Proxy measures one quantity by measuring something else. Think of votes: they measure the “will of the people”, although measuring it with 100% accuracy is impossible.
- The closer the Proxy to the related subject, the more accurate.
- Proxies can help measure the immeasurable, but you have to make sure that the Proxy is highly Correlated with the subject of interest.

Questions for Consideration:

- If you’re having trouble measuring something, could you measure something else that’s related to it?
- What proxies could you potentially use to triangulate into a better understanding of your subject?

Segmentation

“Analytics nirvana rule: never report a metric (even God’s favorite KPI) without segmenting it... There is no KPI so insightful all by itself, even in a trend or against a forecast, that can’t be made more impactful by applying segmentation.” — Avinash Kaushik, author of Web Analytics: An Hour a Day

Key Ideas:

- Segmentation means splitting data into well-defined subgroups to add additional Context and find unknown relationships.
- There are three ways to segment customer data:
 - Past Performance, which segments customers by past actions.
 - Demographics, which segments customers by external personal characteristics.
 - Psychographics, which segments customers by internal psychological characteristics.
- By segmenting your data, and trying different techniques, you’ll find hidden relationships worth exploring to improve your systems and business.

Questions for Consideration:

- What segmentation strategy makes the most sense for your measurements, given what you’re trying to achieve?
- How can you use segmentation to understand what different groups or people or processes are doing?

Chapter 11: Improving Systems

In theory there's no difference between theory & practice. But, in practice, there is. – **Jan L.A. van de Snepscheut**, computer scientist

Intervention Bias

“For every complex problem there is an answer that is clear, simple, and wrong.”

— H. L. Mencken, essayist

Key Ideas:

- Before making a change to a system, it's important to understand that human beings are predisposed to do something rather than nothing.
- Intervention Bias makes us likely to introduce changes that aren't necessary in order to feel in control of a situation.
- The best way to correct for Intervention Bias is to examine what scientists call a *null hypothesis*: examining what would happen if you did nothing, or assumed the situation was an accident or error.
- Before making system changes, ask yourself: “do we need to do this at all?”

Questions for Consideration:

- Have you ever made a change in policy or direction that was counterproductive?
- How can you remind yourself to consider the null hypothesis before every system change you make?

Humanization

"People are the center of the universe. Not stuff." — Stowe Boyd, social technologist

Key Ideas:

- Humanization is the process of using data to tell a story (Narrative) about a real person's experience or behavior.
- Numbers only tell part of the story, you need to reframe the measures into actual behavior to really understand what happens.
- Developing fictional profiles of people developed from data (called "personas") is a great way to Humanize.
- Just data doesn't mean a lot. Tell a story to help people understand the issues.

Questions for Consideration:

- Can you translate your Key Performance Indicators into tangible human behavior? If not, what additional information do you need?
- What insight would humanization give you about what your customers are experiencing?

Optimization

“Premature optimization is the root of all evil.” — Donald Knuth, computer scientist and former professor at Stanford University

Key Ideas:

- Optimization is the process of maximizing the output or minimizing the input of a system.
- Maximization focuses on the system's Throughput. Changing the system so it increases its Throughput means it's performing better.
- Minimization focuses on the system's inputs. For example, by minimizing your costs, you will increase your Profit Margin.
- You can't Optimize multiple variables of a system at once. Focus your efforts on one until you understand how the changes you make will affect the system.

Questions for Consideration:

- What single output are you trying to maximize?
- How can you increase the output without overly compromising the system's flexibility and resilience?

Refactoring

“Elegance is necessarily unnatural, only achievable at great expense. If you just do something, it won’t be elegant, but if you do it and then see what might be more elegant, and do it again, you might, after an unknown number of iterations, get something that is very elegant.” — Erik Naggum, computer programmer

Key Ideas:

- Refactoring means changing a system to improve its efficiency without changing its output.
- Improving output is not the goal of Refactoring. It’s making the system faster and more efficient.
- Refactoring starts by Deconstructing a system, and then looking for Patterns.
- Once Patterns emerge, you can rearrange the system by grouping similar processes and inputs together.
- Refactoring is critical to improve the functionality of any system.

Questions for Consideration:

- Could the systems you’re improving benefit from refactoring?
- Once you’ve deconstructed the system, what themes do you see that appear to be particularly important?

The Critical Few

*“Typically, causes, inputs, or effort divide into two categories: (1) the majority, that have little impact, and (2) a small minority, that have a major, dominant impact.” — Richard Koch, author of *The 80/20 Principle**

Key Ideas:

- The Critical Few is also known as Pareto’s principle, or the 80-20 rule, which explains that in many areas of life 20% of the input produces 80% of the output, and viceversa.
- You can achieve great results by focusing on the critical inputs that produce most of the outputs that you want.
- The same can be applied for the results that you don’t want. Sometimes eliminating certain sources of input is the smart choice, because they are significant Opportunity Costs.
- Find the inputs that produce the desired outputs and focus on them. Weed out the rest.

Questions for Consideration:

- What 20% of inputs are causing 80% of your desired results, and how can you spend more time and energy doing those things?
- What 20% of inputs are causing most of your frustrations and problem, and how can you eliminate them quickly?

Diminishing Returns

“The last 10 percent of performance generates one-third of the cost and two-thirds of the problems.” — Norman R. Augustine, aerospace executive and former U.S. under secretary of the Army

Key Ideas:

- Something suffers Diminishing Returns: when, after a certain point, having more of it becomes detrimental.
- Optimizing everything to perfection is almost impossible. After picking the “low hanging fruit”, further optimization can cost more than the returns you’ll reap.
- Optimize until reaching the point of Diminishing Returns, then focus on something else.

Questions for Consideration:

- How can you identify the point of diminishing returns?
- How much optimization is enough before you decide to focus on improving something else?

Friction

“The world is wide, and I will not waste my life in friction when it could be turned into momentum.” — Frances E. Willard, educator and suffragist who spearheaded the campaign to adopt the Eighteenth and Nineteenth Amendments to the U.S. Constitution

Key Ideas:

- Friction is any process that removes energy from a system over time.
- It's necessary to continue to add energy to a system when there's Friction to keep it moving at the same rate.
- Introducing Friction can sometimes make people behave in a certain way, like having to present a receipt when making a return, which can lower your return rate. But doing this too much can lower your Reputation.
- Remove Friction from your business to increase quality and efficiency.

Questions for Consideration:

- Where can you identify wasted time, resources, and energy?
- How can you eliminate this unnecessary friction?
- Do you have regularly scheduled time to review your business' current systems and processes in an attempt to identify and eliminate friction?

Automation

“The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency.” — Bill Gates, founder and chairman of Microsoft

Key Ideas:

- Automation refers to a system or process that can operate without human intervention.
- Automation works better in repetitive, well-defined tasks.
- The less human intervention, the more efficient the Automation.
- Automation is the best way to Scale, Duplication and Multiplication.

Questions for Consideration:

- Could the process or system you're improving potentially be automated?
- How could you remove human effort or intervention from the process?

The Paradox of Automation

What is the “Paradox of Automation”?

“One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man.” — Elbert Hubbard, author of A Message to Garcia

Key Ideas:

- The Paradox of Automation says that the more efficient the automated system, the more crucial the human contribution of the operators. Humans are less involved, but their involvement becomes more critical.
- If an automated system has an error, it will multiply that error until it's fixed or shut down. This is where human operators come in.
- Efficient Automation makes humans more important, not less.

Questions for Consideration:

- For any automated systems you use, do you have qualified human operators ready to jump in and fix issues quickly?
- How can you identify systematic errors before they become too big to handle?

The Irony of Automation

What is the “Irony of Automation”?

“There will always be a set of circumstances that was not expected, that the automation either was not designed to handle or other things that just cannot be predicted. As system reliability increases, the more difficult it is to detect the error and recover from it.” — Dr. Raja Parasuraman, professor of psychology at George Mason University

Key Ideas:

- The Irony of Automation is that the more reliable the system, the less human operators have to do, so the less Attention they pay to the system while it's operating.
- Reliable systems tend to make it hard for operators to notice when something's wrong. If an error is not noticed, it can eventually become the “new normal.”
- The best way to avoid Automation errors is rigorous Sampling and Testing.
- Focus on keeping your operators engaged, and they will be better suited to notice when something's wrong.

Questions for Consideration:

- How can you keep the operators of your automated system engaged enough to notice when things go wrong?
- What means of testing do you have at your disposal to quickly identify errors in automation?

Standard Operating Procedure (SOP)

"The measure of success is not whether you have a tough problem to deal with, but whether it's the same problem you had last year." — John Foster Dulles, former U.S. secretary of state

Key Ideas:

- A Standard Operating Procedure (SOP) is a predefined process used to complete a task or resolve an issue.
- SOPs reduce Friction and minimize Willpower: less time and energy spent solving a problem that has already been solved before.
- SOPs are very effective ways to bring new members of a team up to speed quickly.
- Review your SOPs regularly because they may become outdated. Their purpose is not to increase Friction or bureaucracy.

Questions for Consideration:

- Do you have clearly defined Standard Operating Procedures for common situations, errors, or problems?
- If not, can you them in a way that all employees will be able to access them quickly and easily?

Checklist

“No matter how expert you may be, well-designed checklists can improve outcomes.” — Steven Levitt, coauthor of *Freakonomics*

Key Ideas:

- Checklists are Externalized, predefined Standard Operating Procedures for completing a specific task.
- Checklisting can help you define a system for a process that hasn't been formalized yet.
- Checklists are helpful to ensure you don't forget important stuff when you get busy.
- Checklisting can help not only by improving the quality of your work, but also by making it easier to delegate more effectively.
- Creating a Checklist for the Five Parts of your Business can have great overall results.

Questions for Consideration:

- Could any of your Standard Operating Procedures be converted into a simple checklist?
- How can you ensure you rely on the checklist while working vs. “winging it”?

Cessation

“There is nothing so useless as doing efficiently that which should not be done at all.” — Peter Drucker, father of modern management theory

Key Ideas:

- Cessation refers to the conscious choice to stop doing something that’s counterproductive.
- Since we suffer from Absence Blindness, we tend to believe that we have to always do something to improve a system.
- Doing nothing may be the best path in many cases.

Questions for Consideration:

- Are you actually causing some of the problems you’re experiencing by trying to do too much?
- What could you stop doing to make things better?

Resilience

“Placing a system in a straightjacket of constancy can cause fragility to evolve.” — C. S. Holling, ecologist

Key Ideas:

- Resilience is, simply put, having the toughness and flexibility to handle whatever is thrown at you, and this is a very underrated quality.
- Resilience doesn't come with optimal Throughput. Flexibility comes at a price.
- Preparing for the unexpected makes you more Resilient. Being able to adjust strategies and tactics may be the difference between survival and the end.
- Planning for both Resilience and performance is the mark of a good management.

Questions for Consideration:

- How resilient is your business? Your personal life?
- What could you do to increase your flexibility and toughness in the face of the unexpected?

Fail-Safe

“‘Always’ and ‘never’ are two words that you should always remember never to use.” — Wendell Johnson, psychologist and pioneer of speech pathology

Key Ideas:

- A Fail-Safe is a backup system designed to prevent or allow recovery from a primary system failure.
- Fail-safes are not efficient if you think you'll never need them. The thing is, if you ever need one, it'll be too late to develop it. Fail-safes must be developed before they are needed.
- Separate your Fail-safe from your primary system as much as possible to prevent one tragedy ruining everything.
- Never make the backup system part of the system you're trying to protect. Interdependence is not good when it comes to Fail-safes.
- Try never to have a single critical point of failure. If the system relies on critical inputs to function, you should plan for when those inputs aren't available.

Questions for Consideration:

- Have you developed fail-safes you can rely on if critical systems fail?
- Are your backups reliable, and accessible if you need them?

Stress Testing

“To make no mistakes is not in the power of man; but from their errors and mistakes the wise and good learn wisdom for the future.” — Plutarch, ancient Greek historian and essayist

Key Ideas:

- Stress Testing means identifying the boundaries of a system by simulating certain environmental conditions.
- To try Stress Testing, you should ask this question about your system: What would it take to break it?
- Stress Testing is a great way to understand how your system works.
- Be creative and let chaos take over, then fix any problems you may find before you take your system to the real world.

Questions for Consideration:

- How much do you know about the limits of your system's performance?
- What could you intentionally break or stress in order to learn how to improve your capabilities?

Scenario Planning

“A prudent person foresees danger and takes precautions. The simpleton goes blindly on and suffers the consequences.”— Proverbs 27:12

Key Ideas:

- Scenario Planning means constructing hypothetical situations, then Mentally Simulating what you would do if they occur.
- By coming up with as many courses of action for that potential circumstance, you'll develop several responses to any imaginable situation.
- Scenario Planning is the key to effective strategy. Instead of focusing on one option, your business becomes more flexible and Resilient.
- Skipping Scenario Planning might be tempting, but try not to. Planning for the future on a regular basis is extremely valuable for any business.
- Don't waste time with unknowable futures. Focus on the most likely scenarios and you'll be well prepared if they actually occur.

Questions for Consideration:

- How much time do you spend asking and answering 'what would happen if' questions?
- What are some potential changes that could affect what you're currently working on?
- Assume each of those changes actually occur – what would you do, and how could you prepare?

Sustainable Growth Cycle

“After victory, tighten the straps on your helmet.” — **Tokugawa Ieyasu**, first shogun of the Tokugawa shogunate, 1600-1616

Key Ideas:

- It's a mistake to assume any system can grow indefinitely, without limit.
- Systems tend to have a natural size, and exceeding this size can cause many problems.
- Elements of a system that are out of control need to be eliminated.
- Businesses move through three phases:
 1. In an *Expansion* cycle: the company is focused on growing.
 2. In a *Maintenance* cycle, the company is focused on executing the current plan.
 3. In a *Consolidation* cycle, the company is focused on analysis and pruning waste and inefficiency.

Questions for Consideration:

- What cycle is your business in?
- Do you respect these cycles and allow them to run their course?

The Middle Path

What is the “Middle Path”?

“A master in any art avoids what is too much and what is too little; they search for the mean and choose it.” — Aristotle

Key Ideas:

- The Middle Path is the balance between too little and too much: just enough.
- No one can tell you what the Middle Path is, you have to find out for yourself. It's a constant learning process.
- Uncertainty is part of the game, you can't eliminate it. There's no point in being too afraid of it because it's not going away.
- Embracing the Uncertainty is what differentiates the good from the great.

Questions for Consideration:

- How can you find the Middle Path between 'too little' and 'too much'?

The Experimental Mind-Set

What is the “Experimental Mind-Set”?

“The only way you learn to flip things is just to flip them!” — Julia Child, world-renowned chef, after flopping a potato pancake onto the floor during her TV show

Key Ideas:

- The Experimental Mind-Set is the healthy approach to business.
- There’s no way to tell what will work and what won’t. You need to constantly be experimenting.
- Every experiment will teach you something new and prepare you better for the next challenge.
- Experimentation is learning through play. It’s the center of living a productive and fulfilling life.

Questions for Consideration:

- What experiment could you try for the next 3-30 days, just to find out what happens?
- How would your life change if you thought of everything you do as a grand experiment?

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